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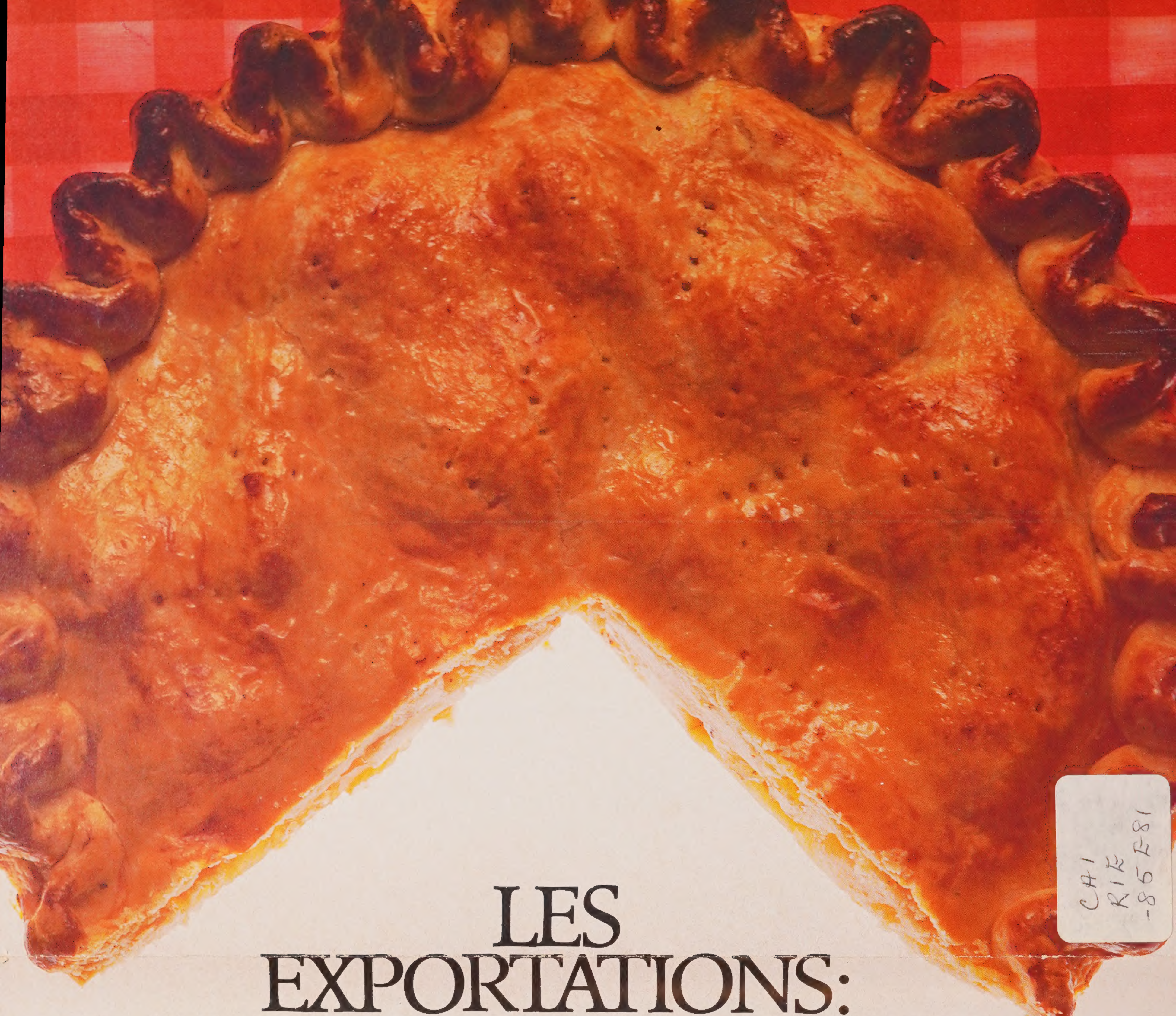

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Canadian Export World Supplement/September 1985

Business Alternatives in the United States

- ☐ *Economic Neighbours*
- ☐ *Basic Planning*
- ☐ *Executive Decisions*
- ☐ *Setting Up Options*

Options for Getting Started

By Jerry Faivish

A number of Canadian manufacturers and distributors have become successful exporters of products and ideas. The destination of these goods and ideas is the United States. After all, the United States is Canada's largest export market and more than 75 per cent of our exports go to that country alone. Therefore, it is quite understandable that many Canadian manufacturers and/or exporters contemplate whether—or how—they should set up in the United States, and investigate the possibility of actually establishing themselves in the country in addition to selling their products and ideas from Canada. The reasons for doing so are numerous, and may include any one or a combination of the following: closeness to market; cheaper transportation costs; regulatory requirements; government incentives, currency control and desire to learn firsthand about the American market.

One of the next and possibly hardest steps that faces the Canadian company is determining the type of involvement that would best meet the company's overall goals. Obviously, there are different ways of getting a foothold in the United States. Each method has its advantages and disadvantages, and each requires varying degrees of involvement. This article will highlight two basic types of involvement—direct and indirect investments—and will explain examples of each.

These are arrangements under which the foreign company is usually able to sell its product, but avoids the tax liability to which a U.S. resident company might be subject.

A distribution agreement facilitates the sale of products or ideas without the foreign company's actually establishing an office or plant in the United States. The foreign company usually enters into a contractual agreement with its American counterpart to distribute or promote its products for a certain period of time and within a certain area. At the beginning, if the foreign company sets up in the United States at all, it is to monitor the arrangement.

In a similar vein, one can enter the U.S. market by entering into a licensing agreement where technology, know-how or product designs are transferred as opposed to finished products. Generally, the originator of the technology allows a local manufacturer or producer to make the product locally, and the Canadian company is reimbursed with a flat fee or royalty payments in accordance with the contractual terms negotiated between the parties. Needless to say, the extent of participation, if any, by the Canadian company is one that is open to negotiation and is based on the needs of the Canadian company and/or its position of strength when negotiating with the American licensee. As a general rule, the greater the involvement of the Canadian company, the more likely it is that the company will change its involvement from an indirect investment to a direct one, assuming the initial involvement was successful.

Direct investments involve the actual establishment in the United States of some sort of business entity designed to carry on the day-to-day functions of a business. While the concept may seem simple at first, one should realize there are many ways of


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establishing a direct investment and, as always, each method has its pros and cons depending on the specific needs of the Canadian company.

Almost any business entity can operate a branch without too much difficulty by simply registering the foreign company in the state or states in which it intends to operate. However, because the establishment of a branch may qualify the Canadian company as a U.S. one for U.S. tax purposes, many Canadian companies set up a legally separate entity.

One of the fastest ways of establishing a presence in the United States is by acquiring an existing business. Using this mechanism one simply acquires all the assets and liabilities, know how, and goodwill of a company. For all practical purposes, the Canadian company has established a presence in the United States even if the market does not recognize it as a foreign one. In essence, the American company has not changed, just the ownership of it. While we tend to associate acquisitions with large stock takeovers subject to certain restrictions in some regulated industries, anyone can buy an American company and carry on its business.

In a merger or amalgamation, two or more companies pool their assets, their liabilities and, in certain cases, their corporate history to form one new entity with either a new business identity or one which owes a great deal to the dominant merging party. However, if a Canadian firm wishes to receive some of the tax benefits of a statutory merger, it should take great care to comply with all requirements of the American Revenue Code, one of which is that a merger must be between two American corporations.

Joint ventures are symbiotic relationships in which two or more parties form a business entity for a specific purpose and for a specific period of time. In other words, the relationship ends when the purpose has been accomplished or when the parties can no longer live with each other. Usually a joint venture is contemplated and/or organized to take advantage of each company's strength. For example, one party may have the technical expertise and the other party may have the financing. While the term joint venture is used quite loosely, it is not really a legal entity per se, and it may take the form of any of the other legal entities which will be described later.

Starting from scratch is probably the simplest way of setting up a business in the United States, as one simply decides that he will create a new entity which will carry on the business in the United States separate and apart from other partners or entities. As ownership usually remains with the Canadian company, the American business becomes subsidiary to the Canadian one, or at least somewhat associated, in fact because of similar ownership. For the most part, there are very few restrictions for a foreigner starting up a business in the United States but there are certain industries— agriculture, communications, transportation, etc.—which may require a majority ownership or control by Americans.

Having decided how to enter the U.S. market, one must then choose the structure or format by which to implement that decision. In this sense, the business entities available in the United States are very similar to those found in Canada. The major ones are: sole proprietorship, partnership, limited partnership and corporation or limited company.

The following chart lists in point form some advantages and disadvantages of the abovementioned business entities.

TYPE OF BUSINESS OR ORGANIZATION	POSSIBLE ADVANTAGES	POSSIBLE DISADVANTAGES
Sole Proprietorship	Flexible Informal Some deferred taxation and deduction of expenses as opposed to operating personally	Owner of the business is personally liable for all of the debts and liabilities
Partnership	One partner can act for the partnership in the absence of the other.	Each partner is not only liable for the obligations of the business, but also the partner's liabilities relating to the business.
	The consequences of the business flow through to partners.	A system of trust and checks and balances must be created to control activities of partners.
	Minimum legal formalities regarding operation of the business.	Difficult to control actions of other partners.
Limited Partnership	Liability of limited partner limited to amount of capital contributed. Tax consequences flow through to partners.	One should make an extensive agreement between the limited partnership and the general partnership to describe and determine the relationship between partners.
Limited Company or Corporation	Limited Liability Company separate from shareholders Continuity of existence	Taxed as a separate entity More closely regulated than other entities.

Often the experience of expanding into foreign markets, especially to the United States, is just the first of many steps by which Canadian companies can expand and compete in the world market place. By being close to world markets and producing and marketing good products, many Canadians can become leaders in their industries. Northern Telecom, for instance, started its U.S. operations with a sales office in Boston. Now it is listed on major U.S. stock exchanges, has sales offices throughout the United States and has a manufacturing plant in Tennessee. There is an expression, popularized by John F. Kennedy, which aptly describes the beginning of this process: "The journey of 1,000 miles begins with a single step."◄

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Economics Has Made Us Partners

By Ken Mark

"Geography has made us neighbors. History has made us friends. Economics has made us partners. And necessity has made us allies. Those whom nature hath so joined together, let no man put asunder."– President John F. Kennedy, Ottawa, May 17, 1961.

Economic interdependence and co-operation have long been the cornerstone of trade relations between Canada and the United States. By just looking at the trade figures between the two countries it is easy to see that they they are far and away each other's best customer. In 1984, for example, 75 per cent of Canada's exports were shipped to the U.S. while 25 per cent of theirs came northward. That year, two-way trade totalled $150 billion (Can.).

And yet, the two countries as adjacent as they are, remain remarkably separate and independent. So separate it seems, in fact, that there exists a fair amount of misinformation about Canada in the U.S. In a recently released poll commissioned by the Canadian Embassy in Washington, most Americans named Japan as the United States' most important trading partner. However, the respondents did note that Canada was the U.S.' most reliable and trustworthy military ally.

Canadians often like to refer to their co-occupancy of North America with the U.S. as cohabitation between a mouse and an elephant. This leads to fears about what would happen if the elephant ever rolled over or how the mouse can get its way when its demands are contrary to what the elephant wants.

Animal analogies aside, there has been a great deal of co-operation between the two. Huge projects such as the St. Lawrence Seaway opened up the Great Lakes waterway system shared by both to ocean-going ships. And then there are the examples of duty free access to U.S. military procurement under the Defence Production Sharing Program (1960) and free trade in the auto industry as spelled out in the Auto Pact (1965). Currently there is a test study involving Nova Scotia firms using the BidNet system which will enable them to tap into the multi-billion dollar public procurement market of U.S. federal, state and municipal governments.

Prime Minister Mulroney greets President Reagan descending from Air Force One as they begin the 'Shamrock Summit' in Quebec City

At present, a 'window of opportunity' which may not remain open for long exists to introduce some form of free or enhanced trade between the two nations. The United States has already taken the bold step of establishing such a bilateral trade agreement with the State of Israel. However, the agreement awaits U.S. Congresssional approval.

This spring, the Canadian government, for its part, issued a discussion paper, *How to Secure and Enhance Access to Export Markets* which included a long section on free trade with the U.S. The three options it outlined, a comprehensive agreement, a framework agreement and maintaining the status quo all contain elements of risk. But at the 'Shamrock Summit' held in Quebec City between President Reagan and Prime Minister Mulroney this spring, both leaders agreed that the time had arrived for serious discussions on the matter.

The economic arguments in favor of free trade are clear. The removal of tariff barriers would ease the movement of goods in both directions. This will force Canadian firms to increase their manufacturing productivity in order to make their products more competitive in open international rather than protected domestic markets. Numerous organizations such as the Canadian Manufacturers' Association and the Canadian Federation of Independent Business—the largest grouping of small business—have come out in favour of free trade. Others, however, argue that such changes will destroy Canada's already fragile manufacturing base. Before it proceeds with negotiations, Ottawa has encouraged all concerned to make their views known in order to build a strong national consensus on the issue.

At the same time, Canadian and oth-

ers are disturbed by the current wave of protectionist sentiments sweeping the United States. This has threatened many traditional Canadian exports such as steel, lumber, hogs and foodstuffs containing sugar and other products. And behind these specific measures, hovers the ultimate trade weapon—a tariff surcharge on all imports similar to the one imposed by President Nixon in 1971.

These actions have forced Canadian manufacturers to lobby in the halls of Washington to protect their interests, something they had never had to do before, relying instead on the mistaken belief that an unspoken 'special relationship' with the United States would look after them. But faced with these crippling threats to their U.S. sales, the Canadian steel industry mustered sufficient resources and arguments to make a persuasive case for the benefits of trading with Canada. Ultimately their efforts were successful in blocking attempts to impose quotas on Canadian steel. Other Canadian industries are slowly learning this painful lesson for themselves.

In trade matters, Canada is hardly a a Boy Scout. Our policies have raised the ire of foreign exporters and investors. Actions such as the National Energy Policy (NEP) and the much maligned Federal Investment Review Agency (FIRA) were perceived by many Americans as being deterrents against their investments in this country. Recently both these programs have either been scrapped or reorganized with a view to announcing to the world that Canada once again welcomes investment from others.

Despite these controversial national policies; state, provincial and even municipal governments on both sides of the border have established economic development commissions to encourage foreign companies to set up offices and plants in their localities. Their objective is to create more jobs. Several Canadian provinces have opened trade offices in the United States to supplement the 14 operated by the federal department of external affairs. In the same way, agencies from various states have offices in Canadian cities to inform companies of available incentives for expanding their operations south of the border.

Such a strategy, however, represents Phase II of an integrated export program. The first step, of course, is to penetrate the market and build up a strong sales base. To help achieve this

beachhead, federal and provincial trade offices offered invaluable assistance. One of the more innovative programs is the Ontario government's New Exporters to the Bordering States (NEBS) under which potential exporters are bussed to places such as Buffalo and Detroit to meet U.S. Customs officials, freight forwarders, warehouse operators, and manufacturers' agents.

Once such markets have been successfully established, Canadian exporters must examine the advantages of setting up a permanent U.S. presence in the form of a sales office, warehouse or manufacturing plant.

Such a presence eliminates the cost of import duties and reduces transportation expenses which can help products be more cost competitive against locally made ones. These on-site offices also enable Canadian firms to service customer needs more closely.

A recent report on foreign direct investment by Canadian firms concluded that they set up foreign operations in order to:

- overcome trade barriers in the export market such as the "Buy America"campaign. e.g., Bombardier Ltd.'s and its contract to supply subway cars to the New York City transit system.
- strengthen the existing business of the Canadian parent through acquisition and expansion. e.g. the Bank of Montreal's purchase of the Harris Bank.
- diversify into other businesses different from those in which the parent engages in at home. e.g. Imasco's purchase of Hardee Food Systems, the fifth largest fast food operator in the U.S. In Canada, Imasco's activities are focused on tobacco products and retail sales.

In addition, the study found that there were strategic benefits such as expanding markets and production volumes as well as gaining new management expertise. It also allayed fears about losing Canadian jobs from such initiatives because the foreign operations usually resulted from the expansion of business which could not be supplied from existing domestic operations.

For many Canadian companies, the U.S. is the ideal place for initial expansion because of its proximity, the similarity of business practices and market needs and the lack of major cultural and linguistic barriers. For all firms, large and small, the experience of setting up a successful U.S. operation can prove to be an effective learning tool for later expansion into markets in the Pacific Rim.

Canada and the United States will continue to be each other's best customer. However, the worldwide trend is toward mutlinational blocs rather than individual national markets as the arenas of future trade expansion. This can be seen from the success of the European Economic Community (EEC), the Association of South-East Asian Nations (ASEAN), the Andean Pact in South America and the Caribbean Economic Community (CARICOM). Domestic markets are simply too constraining for firms bent on expansion.

Between Canada and the United States, there is more that unites us than divides us. Whether or not some form of free or enhanced trade ever materializes depends on the political will of elected officials in both countries. On a more individual level, closer economic integration of our two nations will depend more on the imagination and initiative of far-sighted business leaders who can spot opportunties and find ways to cash in on them.◄

Decisions, Decisions, Decisions

By Hubert J. Stitt and S. Janice McAuley

The material that follows is an outline of a presentation made by the authors at a recent seminar for Canadian businessmen contemplating foreign operations in the United States. It is intended as a point-by-point overview of potential decisions and not as an in-depth discussion of the subtopics. In preparing for this presentation, the authors attempted to find a middle ground between a detailed legal analysis and a peripheral, general overview. The presentation provided a summation of basic concerns rather than a detailed, technical analysis. In addition to the above, a detailed analysis of specific contracts for the purposes of negotiation was presented and may form the subject matter of a later article in this publication.

DECISION #1: Whether to venture into the international market. It would obviously be impossible to compile an exhaustive list of reasons why companies go international. From our experience, however, the following are fairly representative and a somewhat comprehensive representation of motivating factors:

1) Local Market Saturation—With Canada's limited population, an aggressive company could have saturated the local market and then decide that the only real avenue for growth would be to expand south of the border or elsewhere.

As a recent example, one of Canada's leading retailers and a manufacturer of women's and men's clothing, decided that Canada as a marketplace had limitations. They proceeded to acquire three formidable retail chains in the United States, as well as one manufacturing company, and simultaneously commenced a program of opening 10 stores in the United States through one of its men's wear divisions.

National flags snap in the wind at the Peace Bridge border crossing

photo Ontario Ministry of Industry Trade & Technology

2) Unique Product Not Available in the Foreign Market—A recent example of this factor is the exploitation of the game Trivial Pursuit by Canadian entrepreneurs.

3) Production Know-How—"Know-how" is often exploitable. Soviet Russia has recently indicated that it is considering awarding contracts to Canadian firms based on know-how in processing certain materials indigenous to both Russia and Canada. Canadian firms are discussing contracts pertaining to six major thermal and hydro projects in China, and know-how from similarity in climatic conditions may give the Canadian companies the advantage.

4) Desire to Enhance Goodwill of Trade Name or Trade Mark on an International Scale—The capital value inherent in an internationally known mark or name is obvious. Advertising material and promotional techniques may be equally relevant north and south of the border.

5) Enhance Production Economies—Because of cheap or skilled labor, availability of raw materials, or proximity to the marketplace, production in the country of ultimate sale may be more economical than producing abroad.

6) Specific Foreign Inquiries—It is not unusual to find that an aggressive foreign company actively pursues a Canadian manufacturer to obtain the foreign rights. Enhanced profits with zero increased costs could result.

7) Foreign Project Specifications may Dictate Local Sourcing—It is becoming more common for Canadians to bid on foreign projects. The specifications either specifically or practically may require local sourcing and increased involvement in the foreign jurisdiction. This could be particularly relevant to tenders on foreign government projects.

8) Cross-Border Opportunities for Service Industries—Services, as well as goods, can be exploited internationally. It may be that personnel such as architects or engineers have acquired talents that will earn profits abroad for the company.

9) Proximity to Border—A typical example is the automotive industry, located in Windsor and Detroit, where transborder transactions are commonplace.

10) Customers' Requirements—A company that has traditionally exported may find that a foreign customer requires local distribution and

service. That company faces the choice of losing the customer or expanding abroad. For example, a U.S. automobile producer is introducing a program requiring immediate local availability of certain components. This may require foreign warehousing and staffing.

11) Tariff and other Barriers to Trade—Duties may render the product noncompetitive in the foreign market, thereby requiring local assembly or manufacturing.

12) Enhanced Profits—Last but not least, the decision to venture abroad may not be triggered by any of the above factors but simply motivated by the possibility of enhanced profits.

DECISION #2: Ascertain the appropriate commercial method of expanding abroad. Again, although the following list is not exhaustive, it is fairly indicative of the options available. The list is compiled so that the degree of involvement with the foreign jurisdiction increases with each subsequent option.

1) Export—This is the most common and simplistic method of capitalizing on foreign markets. The degree of involvement with the foreign jurisdiction need only be minimal.

2) Export with Control of Foreign Distribution—The difference between this and the first option is that the exporting company will attempt to control the channels of distribution, either with its own distribution network or by hiring the foreign distributor.

3) Licensing—There are many assets that could be profitably licensed, such as trade names, patents, production techniques and know-how.

4) Participate with Local Consortium on Bidding for Foreign Projects — This technique is becoming more common and often receives the support of the Canadian government. Such projects as the Chinese hydro facilities mentioned above, the Hong Kong subway and the Venezuelan rapid-transit system are examples of this increasingly important phenomenon.

5) Participate with Foreign Consortium on Bidding for Foreign Projects —This is a variation on number four above and may involve somewhat enhanced sophistication. The opportunity should not be ignored, however, in exploiting certain types of know-how. In the construction industry, for example, foreign partners are often essential.

6) Joint Venture—The permutations and combinations are infinite, but basically they involve the utilization of the local know-how of a foreign enterprise to assist the Canadian company in entering the market. The contractual arrangements are of paramount importance.

7) 100-per-cent-Owned Foreign Manufacturing or Service Company — This option comprises the ultimate involvement with the foreign country, with all the inherent risks. Obviously, a comprehensive knowledge of the territory is essential.

8) Foreign Acquisition—This is a variation of the option discussed above, with the possible advantage of acquiring local personnel and built-in market share. It is not unusual for the Canadian company to provide local management with equity as well as incentive bonuses.

Before expanding overseas, executives should examine the relevant benefits, means, forms, sources of materials and staff, financing methods and tax considerations

DECISION #3: Form of Enterprise.

1) Minimal Contact with Foreign Country—Quite often, companies wishing to sell in a foreign jurisdiction require advice as to the activities that may subject that company to the reporting requirements, regulations and tax of the foreign jurisdiction. Concepts such as "permanent establishment" and "carrying on business" are of concern. In certain circumstances, inadvertently "carrying on business" in the foreign jurisdiction can in itself subject the foreign entity to local tax.

2) Branch Operations—This format has the advantage of simplicity but the disadvantage of subjecting the local assets to the liabilities of the foreign operation.

3) Partnership with Foreign Entity—Direct partnership may involve unlimited liability and, therefore, alternatives such as the creation of a limited partnership or the creation of a shell partner should be considered.

4) Foreign Incorporation—A foreign entity is created or acquired subject to the full impact of the laws of the foreign jurisdiction.

DECISION #4: Sourcing of Material

1) Wholly Canadian—This approach is inherent in a simple export transaction, whether or not the Canadian company controls the channels of distribution.

2) Canadian Parts with Foreign Assembly—Customs factors often motivate this approach.

3) Dual Sourcing—Often, a foreign manufacturer will produce a key component in the foreign jurisdiction, with the remainder of the article manufactured locally.

4) Foreign Sourcing—Projects to supply government requirements frequently require local sourcing either as a mandatory element or to cater to the patriotic nationalism of the local country.

DECISION #5: Method of Financing

1) Utilization of Local or Foreign Government Incentives—Canadian examples are Export Development Corp., Canadian International Development Agency, external affairs, Program for Export Market Development and Promotional Projects Program. Foreign examples are Pennsylvania Industrial Development Authority grants (often by way of second mortgage where banks participate in the first mortgage); local state authorities often provide low interest, long-term loans to companies for purchases of land and buildings; local revenue bond and mortgage programs for machinery and equipment; community-owned Erie County facilities offered at 4.5-per-cent fixed rate financing (32,000 to 190,000 square feet).

2) Standard Banking Facilities, Local and Foreign—On major foreign takeovers, financing is sometimes provided through a consortium of banks.

3) Venture Capital Financing—Common in the United States and the U.K.

4) Sophisticated Acquisition Financing Techniques—Leverage buyouts, dual and triangular mergers, bonding techniques.

5) Transfer of Canadian Funds to Foreign Countries—Straight loan, equity, tax planning techniques, such as the one referred to as the Dutch Double Dip, utilizing Holland, the Netherlands Antilles and the United States. ◄

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Planning Helps Avoid Pitfalls

By Les Solomon

Doing business in the United States. One could expand at some length on the legal implications of setting up business in the United States—the pitfalls, things to watch for and the many regulations that will have to be adhered to. Many U.S. cities also have aggressive programs extolling the advantages of setting up in their domain and are specific on such things as availability of manpower, location, transport advantages, etc. All of these are important and one only has to look at a recent issue of *Canadian Export World*, for example, to notice the decided transport cost disadvantage that Canadian manufacturers and exporters labor under compared with costs across the border. The purpose of this article is, therefore, to look at the nuts and bolts of implementing such an expansion.

One would also presume that the philosophic decision to look to the U.S. market as a natural extension of one's business has also been made since this market is approximately 10 times larger than ours, and given our undoubted cost advantage at present vis-ã-vis the Canadian dollar against its U.S. counterpart. Many Canadian manufacturers are finding in the United States an enormous market for their goods and now must find out exactly how to go about selling there and the possible effect of such expansion on the average small business. The best way to look at it is really to take some simple case studies on people who have already done just this. How did they go about it? What was the effect of their business?

I think the first point to bear in mind is that you are potentially looking at an operation at least as large (possibly five to 10 times larger) than your existing one. For example, a small-computer operator with a business doing an approximate $100,000 per month decided to expand into the United States. By expanding only into the market in the northeast, areas immediately south of its existing operations in Canada, an additional market of $100,000 per month opened up. Although manufacturing was not a problem insofar as capacity at the existing plant could easily be increased, the effect on cash flow was considerable. Inventories and receivables doubled, and the company's success meant that new financing had to be arranged for carrying of short-term assets, as well as long-term financing for some of the additional equipment needed. This is, admittedly, an extreme example and in many cases the expansion can be regulated at rates a company can handle. Interestingly enough, this same corporation had had an earlier failure in an attempt to set up a subsidiary in Arizona where a much smaller market and logistical problems of deliveries produced the entirely opposite effect.

Too often companies go into the U.S. market without any thoughts about how the product will be marketed and invariably take the wrong approach. The firm must decide whether to continue to have its own sales team, work through independent brokers, or work through distributors.

The profit margins are obviously very different in each of these approaches and the decision will have to be based not only on the volume of sales that one can expect but also on the volume of sales that one can initially afford. All too often the decision is made without thought about the potential effects on the existing business of the company and the existing cost and profit structure of the corporation's Canadian operations.

Canadian bankers on Wall Street provide useful financial services

Having made the decision to go, and having considered the format of the U.S. operation, the next step is setting it up. A number of alternatives are available:

- a subsidiary of the Canadian corporation;
- a branch of the existing Canadian corporation; or
- a new U.S. corporation set up independently by the shareholders of the Canadian corporation. (Such a corporation would be an associated company to the Canadian corporation but technically not a subsidiary.)

In practical terms we have found that the first alternative— that is, a

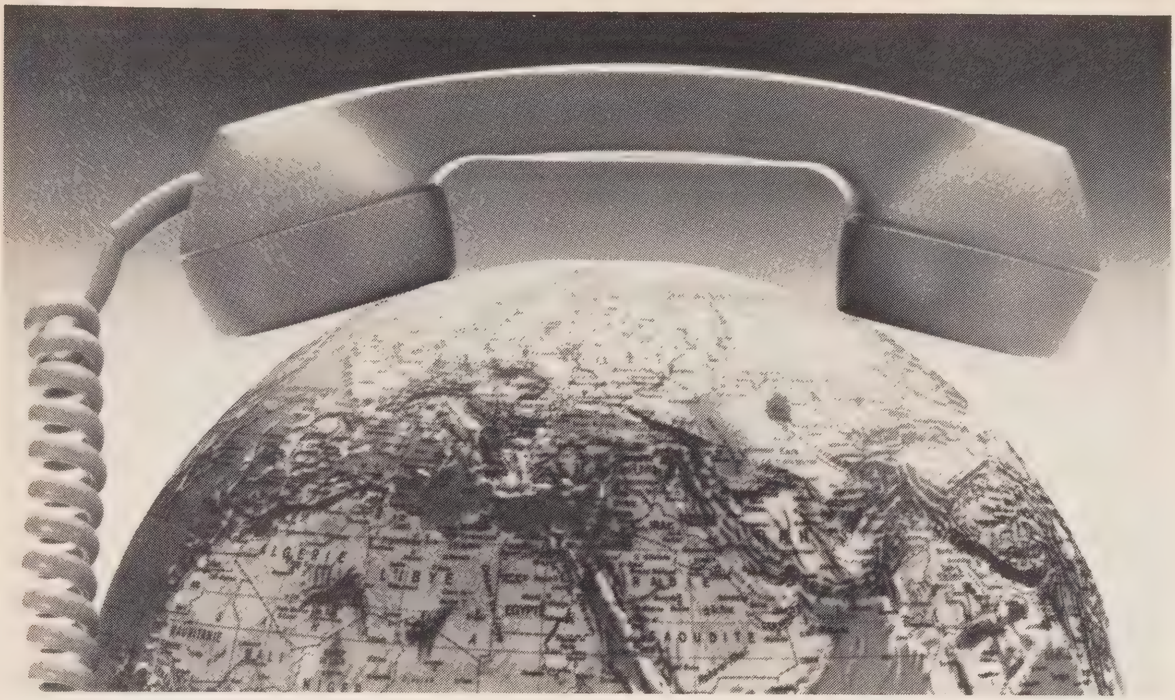
U.S. subsidiary corporation to the Canadian one—is usually the most flexible, particularly in the formative years. In practice, it is usually possible for the U.S. company to be effectively administered by the parent company. The parent company can initially handle the bookkeeping, provide management personnel as required and provide expertise on a cost-recovery basis.

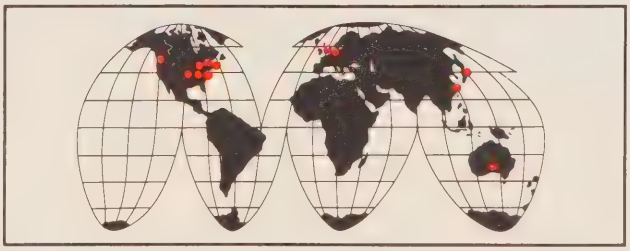
Separate bank accounts will be opened in the United States and usually a U.S. dollar account for the corporation at the bank used by the Canadian head office. The funds would be transferred between this account and the U.S. operating account as required. All bookkeeping can initially be carried out at your head office, although dependent on the size it is usually preferable to have local receivables and payables through the U.S. operating account. The U.S. company would quote directly to its customers, issue its reports on its own letterhead and invoice its customers on its own stationary. Since, in the initial stages, a considerable amount of work will be carried out on the U.S. subsidiary's contracts by the head office personnel, the subsidiary will be billed monthly for these costs.

In general, the United States has a small-business tax structure similar to Canada's, small business being effectively taxed at an approximate 20-percent rate up to the first $100,000. Separate state taxes vary this generalized rate, although these taxes are usually deductible from U.S. federal taxable income. Tax planning is, however, necessary since the Canadian threshold for the small-business rate is higher. Especially consider other aspects, such as the Ontario Corporate Tax Holidays, ensure that start-up losses are used to the best tax advantage. For these reasons, consultations with counsel experienced in U.S. tax law is advisable.

Finally, there are logistical problems of moving staff backward and forward from head office. Should you wish to move people permanently, you will require Immigration approval (Green Card). Although some of this may sound complex or time-consuming, in practice it is usually possible and could be potentially extremely rewarding. ◄

Les Solomon is a partner in the Toronto-based accounting firm, Cunningham and Associates.





Going where the action is

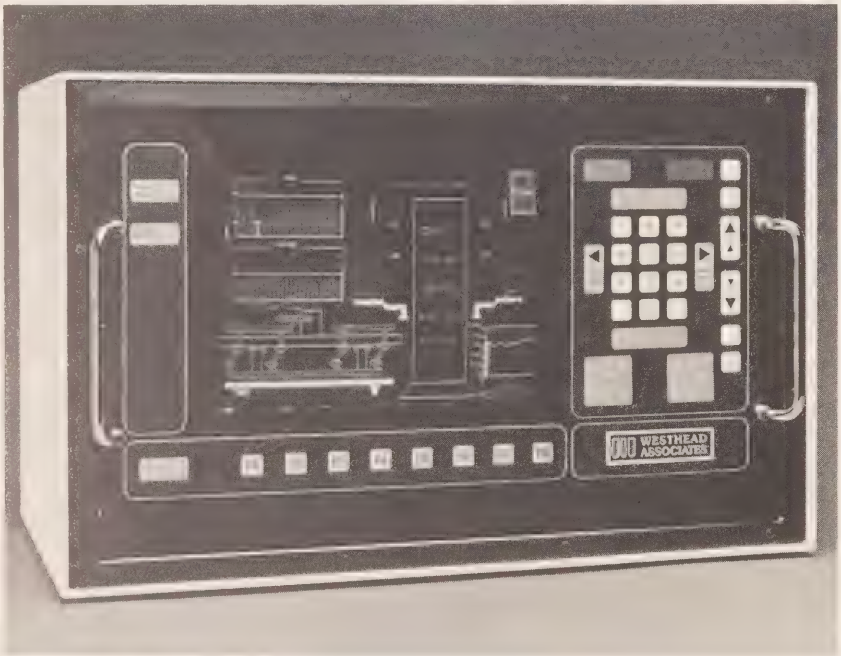
The best way of selling his firm's computerized production control and monitoring systems to the major North American carmakers was to "go where the action was" and set up shop in Detroit, Mich., decided Barry Westhead, president of the Rexdale, Ont.-based firm Westhead Associates.

The company is small (35 employees), young (five years old) and growing (estimated 1985 sales: $8 million). Of the firm's total output, 15 per cent is exported mostly to the United States. However, in the first half of 1985 the figure approached 40 per cent so that by the end of 1986, Westhead estimates that U.S. sales will exceed those in Canada. Since 1983, the firm's number one priority has been to pursue aggressively market opportunities in the south.

"The people at the Michigan Chamber of Commerce were super," recalls Westhead. "They gave us some office space with a phone, a list of contacts within the automobile industry and some help in finding a location." That location turned out to be a spot in the Metropolitan Center for High Technology, a modernized building in Detroit which serves as an "incubator" for a number of fledgling high-tech firms. In March, 1984, Westhead moved in.

Currently, the firm shares space with about a dozen other companies, none of which are Canadian. The occupants also share common office and laboratory services which none of them could afford individually. Since the rent is partially subsidized, there is a time limit on how long they can stay. Although Westhead is under no pressure to leave, it plans to seek larger quarters by the end of the year.

At present, the Detroit office, which employs six people—all of whom are Americans—is responsible for Westhead's service, subassembly, engineering and warranty work for all its U.S. installations. Once its foothold in the American market is firmer, the Detroit office will serve as Westhead's U.S. headquarters co-ordinating the activities of its regional sales office in northern Florida and its emerging distribution network along the eastern seaboard.



Westhead Associates' machine monitor helps keep tabs on factories

Westhead admits to being pleasantly surprised about how much easier it is in some ways to do business in the United States than in Canada. "For one thing, banks down there place more emphasis on the people and the concept behind the company," he explains, "than just on the numbers. They have given us a great deal of credit for our success over the past five years. Maybe they are just more willing to take risks."

He also discovered that state officials have a healthy bias in favor of local companies. Westhead believes that if the state had to choose between recommending a company based in, say, Indiana and a local Michigan one, all things being equal, it would choose the Michigan one because it was a local firm.

"Originally, I was apologetic about being a foreign business down there," Westhead recalls, adding, "But to the Michigan people, they consider us a 'home-town industry' as long as we are located in the state. And that's a big advantage."◄

Things are peachy in Georgia

"Our decision in 1979, to set up a factory in Atlanta, Ga.," explains Jim Giroux, vice-president, corporate management for iil Ltd. a Toronto-based manufacturer of fine executive furniture, "was based on marketing. We sell about 80 per cent of our annual $50 million to $55 million production in the U.S. so it made sense for us to locate there.

"Another reason, given my background in finance," he adds, "was to diversify geographically—not to put all our eggs in one basket—in order to minimize the damage if there were disruptions at one of our plants and to protect ourselves against other uncertainties such as foreign currency changes."

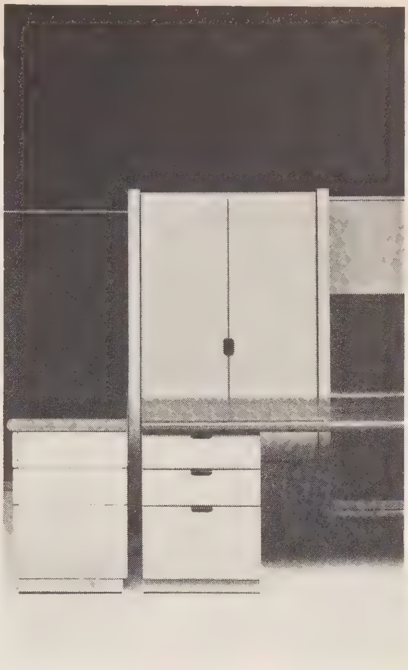
The move to Atlanta followed iil's mid-1970s strategy of setting up showrooms in New York City, Chicago, Houston and Dallas staffed by local representatives. There has been no need for warehouses because all furniture is custom made according to the client's needs. Once this system was working well, the next stage was to set up manufacturing facilities in the U.S.

Atlanta was chosen because it was approximately halfway between iil's

prime eastern United States and Texas markets. Another site was in the running, but the openness and friendliness of the people in Atlanta tipped the scales in its favor. State officials lived up to that faith by helping iil find a site, cut through red tape to secure a business licence and solve immigration problems. A number of the initial core group were sent there from Canada. However, now all but 20 out of the 500 employees are Americans.

A secondary reason for setting up in Atlanta did not quite match iil's original hopes. Although the firm's furniture is extremely well received in other U.S. markets, it took two years to crack the local Atlanta market (the Atlanta plant was profitable after seven months thanks to some very thorough homework). "It was a tougher market in which to sell our furniture than we had anticipated." concedes Giroux.

Besides the Atlanta, iil also opened showrooms in San Fancisco and Los Angeles—the thriving western market where it currently faces stiff competition. Once it gains a foothold, iil expects to expand further by establishing a plant there to complete a manufacturing triangle—with Toronto and Atlanta at the other two corners.



iil's classically modern furniture is now built in its Atlanta plant

Fears of nationalist feelings affecting U.S. sales have yet to be borne out. "We tell our clients that they can have their furniture in 16 weeks from our U.S. plant or eight weeks from our Canadian plant," Giroux says. "And they pick the one that best suits their schedule. In any case, we have a local presence as an American corporation."

The expansion into Georgia is not expected to affect Canadian production. Under a current reorganization, the firm plans to split production approximately 50—50 between the two plants, which are about the same size. Another reason is that the market is booming. The 1985 forecast of $50 million to $55 million is up 31 per cent from the 1984 sales figures of $42 million. Besides the Canadian and U.S. markets the Toronto plant also ships about $5 million per year overseas, mainly to England and Saudi Arabia.

Setting up a U.S. subsidiary, however, may not necessarily fit every company's needs. "Our major competitor," explains Giroux, "adopted the opposite strategy and tripled the capacity of its Canadian plant so they could supply the world from one place." But Giroux says he's happy with iil's decision because when selling across all of North America as iil does, he believes "you have to go where the action is."◄

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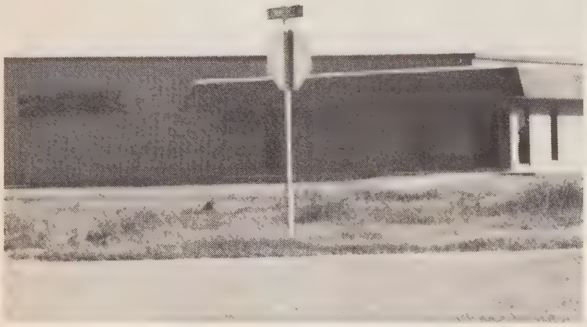

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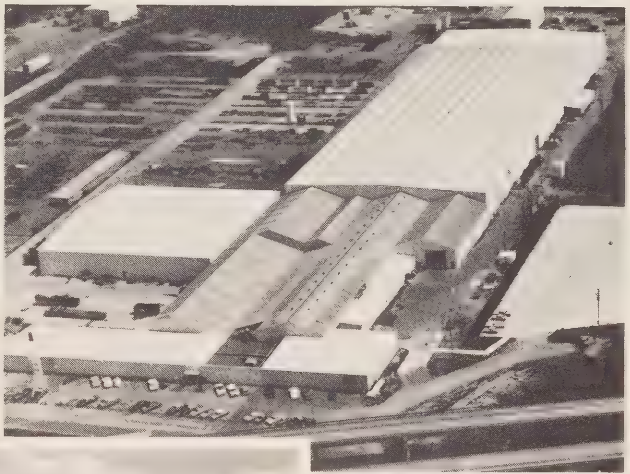

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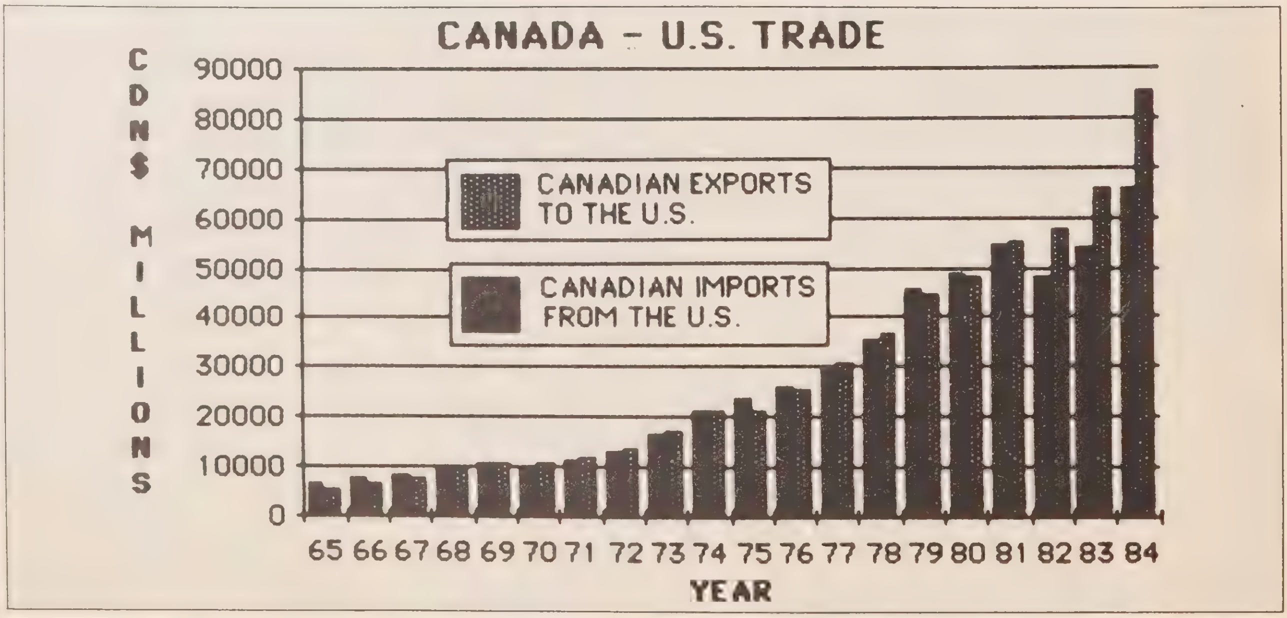

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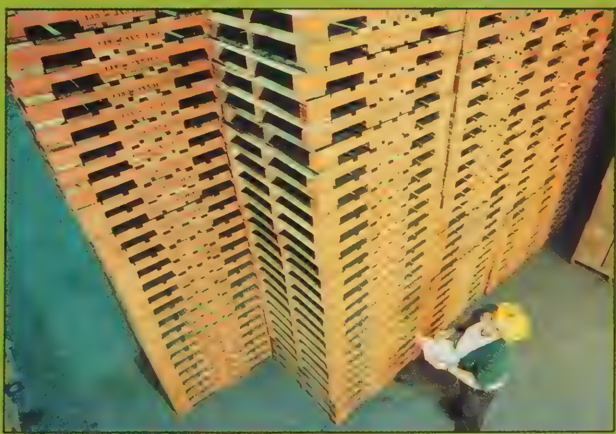

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Ottawa Notebook

A Ticket To Ride

There is a massive contract up for grabs in Ottawa . . . the federal government's travel service, worth in excess of $350 million annually. More than 30 candidates are in the running, including the two major airlines, Air Canada and CP Air, which now employ more than 150 people to provide the service. The Mulroney government decided in January to respond to long-standing demands by the private sector that others have the opportunity to bid for this lucrative market.

The department of supply and services put the service up for tender but imposed rigorous criteria for any would-be candidate. The government is not prepared to pay any more than it does now. It demands around-the-clock bilingual service everywhere in the country, as well as integrated travel arrangements, national and international reservations and tickets for travel, hotel reservations, car rentals and itinerary planning.

Other bidders include the large travel agencies: American Express, Eaton's, the Bay, and P. Lawson, as well as some newly formed consortia—mostly amalgamations of large regional travel agencies which joined forces in order to offer the required cross-country bilingual service. Bids must be submitted to the department of supply and services by Sept. 3 and the winner is expected to be announced by November.

Arms for Sale

Canadians may not yet quite realize how quickly the country is joining the ranks of the international arms purveyors.

The plans for Canada's purchase of a Low-Level Air Defence System (LLAD) for Canadian forces in Europe is a good case in point. The Canadian finalists in that $600-million competition (normally Litton and Raytheon) can only hope to make a longer term success of their venture (with their respective European partners), if third countries opt into their largely untried technologies. Malaysia and Thailand, as well as three countries in the Middle East are other prospective clients.

The Canadian companies involved would supply electronic components and not the immediately lethal missiles that are what the LLAD is all about. Defence Minister Erik Nielson freely acknowledges that the country is embarking on a substantive effort in the international arms bazaar. At the time of announcing the three finalists of the LLAD in early May, he made it clear that Canada very much wants to be "in the lead" internationally as it participates in the worldwide defence modernization race.

Have a Nice Trip

How patient we've suddenly learned to be. Whether Mirabel or Lester Pearson, JFK or Frankfurt, air travellers have become models of docile behavior. The world has—after TWA and Air-India and CP Air—indeed become more of a global village governed from the extraterritorial capitals of international terrorism, wherever.

First, how seriously all this was taken—and nightly retaken—in Ottawa was reflected in the eyebrow-raising presence in distant Cork (Eire) of no less than a veritable assistant deputy minister of external affairs (David Molgat) throughout the search for survivors and flight recorders of the Air-India crash.

International civil aviation insiders saw Canadian airport security in a decidedly ambivalent light.

Son of FIRA Born

FIRA successor Investment Canada has ambitious plans to put Canada's best foot forward internationally beginning this fall. Not just by plugging for outright direct investments here, but by generally extolling the virtues of doing business in Canada.

IC president Paul Labbé (a one time trade commissioner) knows that he has to rebuild the organization, which means saying goodbye to some long-time FIRA officials.

Labbé's investment-transcending mandate suggests a possible struggle with external affairs for dominance in the foreign affairs field. ◄

Moscow Without Tears

The frustration of dealing with Soviet ministries can make exporters weep. Persistence and useful products can lead to smiles all the way to the bank

By Richard daCosta

Foreign trade in the Soviet Union is managed in relative isolation from the domestic economy. As with each significant economic and managerial function in a classic command economy—agricultural production, metallurgical output, or aircraft construction—foreign trade is entrusted to a central agency of government. Its policies and their execution necessitate a distinct bureaucracy. All foreign trade goes through organs of the ministry of foreign trade. These foreign trade organizations normally specialize in regard to their commodities but may specialize on the basis of domestic clients or geography so that trading monopolies on specific commodities are not always total. Trading in equipment for timber harvesting could conceivably be handled by one of several foreign trade organizations; LENFINTORG, which specifically deals with trade between Finland and the Leningrad region; or DALINTORG which trades between the Soviet Far East and peripheral areas; or by a Moscow-based trade organization such as TRACTOROEXPORT.

New traders into this market must understand certain basic facts. First is the nonconvertibility of the Russian ruble. This creates an artificial relationship between imported commodities and "real demand" (as defined in market economies). Soviet importers (ministries, etc.) are allocated *valuta* (convertible currency) under annual and five-year plans. Priority is given to the import of capital goods, which is determined politically and does not generally reflect consumer demand. Exporters must first identify the politically favored industrial sectors under the plan. If your product falls into these priority sectors, then proceed further. Identifying an unfulfilled need is not an opportunity to "scoop the market." Unless these needs have been politically sanctioned in the current plan, they remain unrequited. (Unless you perceive countertrade potential, are experienced in this and willing to invest inordinate executive talent and time in business development, look elsewhere for alternate global markets.)

Second is the bureaucratic pressure for symmetry in bilateral trade balances. The tradition within the Socialist bloc has been bilateral barter in commodities—quantities as much as in monetary terms. Even where financial clearing arrangements exist with a market economy (as with Finland), there is an annual negotiation of the list of exchangeable commodities and their total quantities. For Canadian exporters this is heavy-handed intrusion by government functionaries into business deals across international boundaries. But the Finns trade with the Soviet Union with creativity, innovation and patience to their undisputed advantage. The Finnish private sector accepts continuous government trade

Bill Leask (left), Bruce Christie and Ivan Thue, three Canadian executives, find time to take in the sights and sounds of Moscow

planning, jointly shares supervision of its execution and has cultivated skills unique to this bureaucratized environment.

For the Soviet trade functionary, his "plan obligation" must be amenable to bureaucratic management. Its execution and his career path are controlled and measured primarily by qualitative standards, i.e. procedural correctness, typical of all bureaucracies. In this environment, the bureaucrat's responsibility is projected down to individual import contracts. We perform the same functions (in individual businesses) but measure success by simple quantitative criteria—net margin, net profit, return on sales, etc.

The ministry of foreign trade has approximately 60 foreign trade organizations headed up by directors general. These are senior public officials who may have functioned as trade representatives or trade diplomats in Soviet embassies or trading organizations outside the Soviet Union. Each foreign trade organization is further divided into firms, of which there are in excess of 400. The commodities that these firms deal with are determined by the functional structure of Soviet industry. Purchasing by these foreign trade organizations is conducted almost exclusively in Moscow; the seller has to go to the Soviet Union to make the market. There are about 150 Western firms accredited with permanent representation in Moscow, Leningrad, or elsewhere in the Soviet Union; none of these resident representatives is Canadian, though some act for Canadian principals. Some of the better-known ones are Scott European Corp. and Oilfield Technology Inc. The latter has done work for a number of Alberta firms.

Conventional marketing principles

Soviet Sales Keep Firm Busy

For Canadian Foremost Ltd., a Calgary-based manufacturer of all-terrain vehicles (ATVS), export links with the Soviet Union were first forged in 1966 when a Soviet trade delegation from the ministry of petroleum visited the Alberta oil fields. While they were inspecting rig and campsite equipment at Rainbow Lake, Alta., they spotted a track vehicle and insisted on seeing the manufacturer which turned out to be Canadian Foremost.

"Our connection with the Soviet Union," explains Canadian Foremost president Jack Nodwell "has resulted from luck as well as hard work and sound strategy." The luck began with that fateful 1966 trip which happened to be led by the minister who, by coincidence, was a former truck driver capable of test driving the vehicles himself. Impressed by the results, he indicated his ministry's interest in buying some of them.

So Canadian Foremost translated spec sheets, manuals and even a demonstration film into Russian and sent them over. A year passed with no response. But the firm continued to send over information. Finally, after two years a member of the Soviet Trade Mission in Ottawa phoned and asked if Foremost was still interested.

Since the firm was small and the risks involved were enormous, Nodwell asked around about the implications of the deal. As a result, he set the condition to which the Soviets agreed—that all negotiations take place in Canada rather than in the Soviet Union. After two weeks of solid negotiation and then conferring with bankers, lawyers and the Export Development Corp., the firm signed an initial order to supply 25 vehicles.

A Canadian Foremost vehicle meets traditional Siberian technology

Over the years, the firm has sold 380 vehicles to the Soviet Union, each worth between $100,000 and $500,000. As a result, of these and other export sales, Canadian Foremost has been able to maintain reasonably smooth production and employment levels, unlike other suppliers of oil field equipment. In 1983, for example, the firm sold just one vehicle in North America but exported 40 overseas.

Recently, business with the Soviet Union has picked up. In 1983 there were two contracts; one worth $14 million to supply 32 of its *Husky 8* ATVS to the ministry of gas pipeline maintenance and another worth $7 million for 15 vehicles to the ministry of geology. And in 1984 there was a further contract worth $25 million to supply 50 vehicles fitted with fire-fighting equipment to the ministry of petroleum.

Throughout their dealings, the Soviets have either paid cash or arranged long term-credits through EDC. In more recent negotiations, however, Nodwell concedes that "other options" have been discussed more actively. "I am sure that if Canada bought more from them,"he says, "it would likely improve export opportunities for Canadian goods over there. But there's no simple solution to the problem."◄

Moscow's Atomic Energy Pavillion is an example of neo-classical art

can be discarded in approaching the Soviet market. The main object of one's market research should be ascertaining whether the need for the firm's products or services has been placed on a formal or informal import list by the central political organs. And the focus of the firm's marketing strategy should be to explain how the advantages of the firm's products and services can help to achieve the social and economic goals of the Soviet Union.

In terms of business intelligence, large on-site staffs give Japanese trading houses a decided advantage in the Soviet market. Their representatives are continuously extracting market intelligence from Soviet publications by analysing plans and through informal contact with officials in the foreign trade and technical ministries. This information is neither classified nor wilfully withheld. Its value is elevated merely because the communications infrastructure surrounding this market is underdeveloped.

Particular consideration must be given to integrating a financing package with the technical and material specifications. This has been a major weakness hampering Canadian efforts to land a sizable capital project in the Soviet Union. Lastly, remember that history and culture have made the Soviets a less outgoing people than the average North American, particularly on first meeting (but their jokes are head and shoulders above those of any other culture—in delivery, cleverness and subtlety). One's initial approach and the resulting symbiosis can be crucial to your business prospects. In the Soviet market, success must always be viewed over the long term. Naturally, it evolves from a fundamental aspect of salesmanship easily neglected in our free-enterprise system where job mobility is high, and enduring personal relationship assiduously

cultivated over years.

Exporters new to the Soviet Union should be aware of three early sensations:

• Frustration—business can often be conducted at a languid pace but count yourself lucky, something is happening! Being kept waiting in your hotel room for a call that never comes or being out of contact for days with those whom you've come to visit with no explanation offered, far less a prior warning, is common;

• Isolation—hotels for foreigners are segregated and there is little contact with locals, communications with the outside world are cumbersome, if not primitive, and a sense of being unable to influence events does creep up on you;

• Intimidation—the general ambience of control, typical of business and life in a centralized state. Soviet trade officials take pride in their negotiating prowess and their demands (particularly in initial contracts) can be aggressive and outrageous—not only on price, quality and quantity, but on such nonmonetary items as delivery, packaging and the resolution of ensuing disagreements.

Canadian suppliers who have proved the reliability and uniqueness of their product have painstakingly carved market niches in the Soviet Union. Notable examples include Canadian Foremost (all-terrain vehicles to the geological and energy exploration sectors); Portatest, of Calgary (wellhead monitoring equipment); Canadian leafcutter bees and frozen bull semen (each deal took about a decade to unfold). All emphasize the importance of a long-term perspective on business development in the Soviet market. This does not mean exorbitant dollar costs but more usually a long gestation period. You might wait years to gain the customer's confidence in your product—in scientific, economic and regulatory terms. (Despite the centralization of power, such technocratic decisionmaking tends to be collegial rather than dictatorial, so a local consensus is the preferred outcome before change is effected.) Success stories require an inordinate investment of executive time, a sincere desire to meet the client's long-term needs, an openmindedness vis-à-vis their sourcing practices and idiosyn-

Continued on page 60

Morflot Freightliners Offers Package Deals to the Soviet

Canadian firms currently exporting to the USSR may be able to take advantage of "compensation freight" to convert a substantial portion of their ocean transportation costs into new export orders. Besides the Canadian exporter, there are two other players in the game, the Soviet shipowners and one of the Soviet trade organizations.

Since the shipowners want to build up cargo traffic and the trading corporation wishes to increase imports of consumer goods and food products into the USSR, they have agreed that a certain portion of the ocean freight charges earned from the Canadian shipper can be made available to a specified Soviet trading corporation to buy additional products from that shipper. In other words, for agreeing to transport its goods on Soviet ships, the Canadian firm receives a bonus of having part of its transport fees used by a Soviet trading corporation to buy more of its products.

The exporter negotiates with the shipping line regarding service and rates and with the appropriate trading corporation regarding price and quality of the goods. After an agreement in both areas has been reached, a minimum of 85 per cent of the pure ocean freight paid by the Canadian firm for shipments from Canada, or from any other point in the world for that matter, to the Soviet Union can be turned over to the relevant trading corporation.

For more information, contact: Morflot Freightliners Ltd. in Montreal at (514) 285-1571 or Telex 055-60611. ◄

Gushing with Optimism

Chastened by the recession and threatened by foreign competitors, chemical companies are banking on new large-scale plants to supply world markets

By Ken Pole

The word "chemical" means different things to different people, sometimes it is used as a pejorative to describe an odor or a taste. Ask for a definition and people tend to reply with other generic terms such as "acid." If they've read newspaper reports on chemical spills, they might come up with an expression such as PCBs—even if they aren't too sure what it means. But few have a real appreciation of the overwhelmingly beneficial role of chemicals in everyday life and even fewer are aware of what an economic force they are for Canada.

Witness a recent speech to the National Press Club of Canada by James Hay, the lanky Regina native who is Chairman of Dow Chemical Canada Inc. A former chairman of the Canadian Chemical Producers' Association, the industry's lobby in Ottawa, Hay has become something of an apostle for the industry as a whole. Even so, only a couple of reporters bothered to cover his speech; the rest of his small audience was bureaucratic. Having been warned that his audience might be sparse, Hay was unabashed. "I'll speak to anyone who is willing to listen," he explained afterward, gracious in allaying the embarrassment of his host and serious in his commitment to spreading the gospel.

The focus of his speech was natural gas and how it could generate industrial jobs. "The petrochemical industry is the fifth-largest manufacturing industry in Canada," he summarized. "It produces more than $5 billion of factory shipments per year and is the second-largest, after pulp and paper, in value added. It spends $170 million on research and development in Canada and over 20 per cent of its employees are professionals. Through 1983, its capital spending in Canada was about $1 billion a year."

Dow Canada's James Hay proudly holds the firm's 1984 Export Award

photo: Grant Hill Photography

Dow Canada—a wholly-owned, Sarnia-headquartered subsidiary of The Dow Chemical Co. of Midland, Mich., which has 118 operations in 30 countries—is an important part of the Canadian chemical industry. In addition to petrochemicals, whose name is suggestive of the raw materials that go into them, Dow also is involved in, among other things, agricultural chemicals, consumer products and pharmaceuticals. Its assets are worth about $1.8 billion. C-I-L Inc. is another major player with about $1.2 billion in assets. Others include Allied Canada Inc. ($237 million in assets), Celanese Canada Inc. ($291 million), Du Pont Canada Inc. ($666 million), Reichhold Ltd. ($291 million) and Union Carbide Canada Ltd. ($884 million). Then there are others, divisions of petroleum companies such as Imperial Oil Ltd., Shell Canada Ltd. and Gulf Canada Ltd. Their scores of operations range from Alberta Gas Chemical's huge 700,000-tonnes-annually methanol plant at Medicine hat down to Lawter International's tiny 500-tonne specialty plant in Rexdale, Ont.

Symbiotic with the oil and gas sector, the petrochemical industry is the core of the industry, producing 60 per cent of total Canadian chemical manufacturing. Raw materials account for as much as 70 per cent of the cost of petrochemical production. Although seriously hit by the recent recession, it still has maintained sales, including those of intermediates, of more than $4.2 billion a year since 1980. They peaked at $5.3 billion last year, including exports of $1.6 billion. Imports of $1.7 billion, however, left a petrochemical trade deficit of $48 million last year.

The primary building block in petrochemicals is ethylene and Canada expects to be exporting 2.3 million tonnes annually by the end of this decade out of total production capacity of 2.6-million tonnes that will represent five per cent of global capacity by then. Current Canadian ethylene exports total about 1.7-million tonnes from a production capacity of 2.2 million. With the recent startup of its second unit, Alberta Gas Ethylene became the world's largest ethylene production site and its products literally surround us in the synthetic fibres used to make many textiles.

Ethylene is present in much of our clothing, the drapes on our windows and in the carpets and sheet flooring in our houses. It is used in the paint on our walls and in the records and audio

and videotapes that give us so much pleasure. The list is staggering: plastics in their myriad forms, synthetic rubber, refrigerants, automotive antifreeze, brake fluids, detergents and adhesives. Many of the $1.6 billion worth of pharmaceuticals we consume annually are chemical industry products. Many of the high-tech electronic innards of the word processor used to write this feature have their genesis in the chemical industry. Most of the paper used in this magazine relies on ethylene derivatives for its existence.

"Petrochemicals are sold to thousands of large and small businesses which fabricate and formulate them to produce the ultimate end products we use every day," according to Hay, whose Canadian and American degrees include a PhD in chemical engineering from the University of Toronto. "Without these products of chemistry, the modern age of technology, medicines, electronics and other necessities to our lifestyle would not exist." Without one particular chemical product, it's highly unlikely that Canada's westernmost province would have been settled the way it was. That product was dynamite, vast quantities of which were used to carve railbeds and tunnels out of the Rocky Mountains.

As indicated by the petrochemical sector, the chemical industry, overall, is a key factor in Canada's balance of trade. In addition to petrochemicals, its products can be divided into inorganics as well as organics and specialties. Organic and specialty chemicals are derived mainly from such hydrocarbons as crude oil and natural gas—which, after all, are vegetable in origin if you go back far enough in time—as well as from animal fats and vegetable oils. Products made from them include pharmaceuticals, paints, plastics and even some foodstuffs. Inorganics, by contrast, derived from minerals, metals and salts in the earth's crust, include such things as chlorine and caustic soda; they also include sulphuric acid that's recovered from "sour" or high-sulphur natural gas and from some ore smelting. The principal difference between organics and inorganics is that the latter generally don't contain carbon.

Overall, last year, exports of chemicals and chemical products netted Canada $4.1billion but were eclipsed by $5.4 billion in imports—a deficit of $1.3 billion. The exports included $2.7 billion to the United States, $130 million to the United Kingdom, $366 million to the rest of the European Economic Community, $251 million to Japan, $43 million to Australia and $608 million to all other buyers. Last year's imports included $4.1 billion from the United States, $204 million from the U.K., $664 million from the other EEC countries, $103 million from Switzerland, $98 million from Japan and $274 million from all other sources.

The most up to date 1985 figures from Statistics Canada show these trends: Canada had exported $662.4 million in inorganics to May 31, up 20 per cent from the first five months of 1984, while organics were up 8.8 per cent at $650 million; fertilizers and related materials were up one per cent at $611 million; synthetic rubber and plastics were up 35 per cent at $482 million; and other unspecific chemical products were up 1.3 per cent at $148 million. Incoming traffic to May 31 included $623 million in organics, up 6.5 per cent from a year earlier; $618 million in plastic materials, up 8.1 per cent; and $959 million in other chemicals and related products.

The value of the Canadian dollar in U.S. terms certainly has had a schizoid effect on the chemical industry and the broad spectrum of companies that depend on it, many of them producing for export. Eighty per cent of Canadian inorganics were shipped south of the border last year, compared with 74 per cent of organics and specialties and 57 per cent of petrochemicals. The strong U.S. dollar obviously helped that outflow, but it also boosted the cost of imported chemicals with overt implications for manufacturers here. And it undermined the competitiveness of Canadian chemicals on most other export markets as the Canadian dollar gained piggyback strength from the U.S. currency.

The industry's effect within Canada is pervasive as the economy consumed $4 billion worth of petrochemicals last year, $2.2 billion worth of organics and specialty chemicals and $1.6 billion worth of inorganics. In addition to the better-known centres such as Edmonton (C-I-L, Celanese, Borden), Sarnia (Dow, Du Pont, Esso, Fiberglas, Petrosar, Polysar, Shell) and Montreal (Gulf, Petro-Canada, Petromont, Polysar, Shell, Union Carbide) a list of operations includes names such as the little town of Joffre, where Alberta Gas Ethylene is fast becoming globally important. Then there are less well-known places such as Corunna, Ont., Port Moody, B.C., and Beloeil, Que. In fact, the only province without a chemical plant is Prince Edward Island, but its farmers, like their counterparts elsewhere, need huge volumes of fertilizers and other chemicals to maintain production.

Dupont nylon and polyethylene packaging film are export products

One small but nonetheless graphic example of the chemical industry's influence is H.T. Mould Inc., a small Montreal tool-and-die firm. Encountering problems in getting a supply of aluminum pipe cutters, it asked Du Pont Canada Inc. whether a plastic could be used instead. "Cutters with handles made of Tynite thermoplastic polyester were soon rolling off the assembly line," Du Pont says. The

switch, however, was more than a solution to a short-term supply problem. Not only were the new cutters 42-percent lighter, they also were more durable, had added impact resistance and were corrosion-proof. Production was faster, too, since the new handles were fully finished right from the mold. Du Pont touts the H.T. Mould experience as an important example of its "commitment to Canadian industry.

But it's not all sweetness and light. Dow, for example, has had to scale back its expectations. Having invested some $600 million in Alberta-based development in the late 1970s, including its share of the 13,000-km Cochin Pipeline to Sarnia from Fort Saskatchewan, it has found itself having to retrench and plans to reduce its dependence on the "petro" part of its operations by the mid-1990s. Its 1983 profit on $1.3 billion was $19.5 million according to a rare separate financial statement for the Canadian operation issued by the parent company that year. Details for 1984 so far are unavailable. Celanese Canada, with 1984 profit of only $6.2 million on gross revenues of $392 million, also is feeling the pinch. The methanol from its new joint-venture plant in Alberta has been sold at what are described as "fire-sale prices" because of a huge global glut that is due partly to new Saudi Arabian plants that have come onstream. There has been massive Saudi investment in petrochemical plants in recent years, primarily to exploit natural gas that was flared (burned off as an unwanted byproduct of oil production) for decades.

CCPA president Jean Belanger once said in an interview that if the industry had competitively priced feedstocks, it could compete successfully with the rest of the world. The Liberal government's 1981 National Energy Program, however, forced a series of scheduled cost increases at at time when the more market-responsive regimes in place elsewhere, particularly in the crucial U.S. market, were allowing prices to slip. Last year's federal *Task Force Report on the Petrochemical Industry* took cognizance of this, recommending deregulation. The Progressive Conservative government lost no time in deregulating crude oil prices and—more important to the chemical industry because of its growing reliance on natural gas—has promised at least partial gas deregulation this November.

World-scale modern plants will help Dow beat competition abroad

So the industry seems to have what it wanted. But is it enough? The Senate's Standing Committee on Foreign Affairs recently issued a report on Canada's relations with the Middle East and North Africa. It dealt only briefly on the energy sector specifically, pointing out that Canada had shifted its crude oil sourcing to Mexico and Venezuela in a supply diversification move that dramatically reduced dependence on Mideast sources in the wake of the 1970s oil shocks. "Another dramatic change relates to the outlook for petrochemical trade," the committee observed.

This is the aforementioned Saudi investment. "Large-scale production is scheduled to begin in 1985," the committee warns. "Saudi Arabia will become a strong competitor of Canada's sales of basic petrochemicals to such markets as the United States and Japan. With natural gas feedstock available for their petrochemical manufacturing complexes at a price equivalent to about $2.50 a barrel of oil, there will be a major impact on international markets. The Saudi products will inevitably be significantly cheaper than anything Canadian petrochemical producers could match even with their relatively lower transportation costs to inland U.S. markets."

Chilling as that might seem and notwithstanding Canada's experience, CCPA spokesman Art O'Connor feels that the world isn't as simple as the Senate report might suggest. For one thing, the report was drafted before the government unveiled its deregulation plans in Finance Minister Michael Wilson's budget. Nevertheless, "there is a strong feeling that a lot of that stuff is going to find itself going into the European and Japanese markets, which will back up U.S. exports into the U.S. market," O'Connor points out, on the other hand, that the Saudis are aware of the need for orderly marketing. "From that standpoint, the problem of a major dislocation in the market is not anticipated."

It should be noted also that the Saudis, through their oil minister, Sheikh Ahmad Zaki Yamani, have been a voice of moderation within the Organization of Petroleum Exporting Countries. Also, while the new Saudi plants represent about three per cent of total world production, they're more fittingly seen against the backdrop of the fact that they represent only about a year's world growth for their products. Another thing to be considered, even though industry does tend to buy from the cheapest sources, is Canada's track record as a dependable supplier.

Even so, it's worth heeding analyst Barry Beale, who wrote *Energy and Industry: The Potential of Energy Development Projects for Canadian Industry in the Eighties'* for the Canadian Institute for Economic Policy in 1980. "There can be no complacency," he cautioned at the time. That advice is as timely today as it was five years ago. Dow's Jim Hay agrees. "If we can't learn from experience," he says, "we are not as intelligent a people as we claim to be. If we don't learn from the past, we will be condemned to live in it—in a world rapidly moving to a bold new future."◄

Bid and Win

When they bid, Canadian firms win more than their share of contracts financed by international financial agencies

By Laurie Gillies

Canadian companies have a poor track record when it comes to taking advantage of contracts available through the World Bank and the four multilateral development banks. The problem, it appears, is not that Canadian firms are not competitive; the difficulty is that we simply aren't bidding often enough. Billions of dollars worth of contracts are financed through the World Bank, the Inter-American Development Bank, the Asian Development Bank, the African Development Bank Group and the Caribbean Development Bank. In the Asian Development Bank alone, projects worth \$11.6 billion are planned for within the next three years. It is estimated that by 1990, the developing countries will account for 30 per cent of all international commerce.

Yet Canada's share of markets in the Third World is only about two per cent—far behind Japan, which devotes 30 per cent of its trade to the Third World, and the United States, which devotes 10 per cent. And while many countries have secured development bank contracts double or even triple the payments of their governments, Canada has so far averaged only about 66 cents in procurement for every dollar our government has contributed. We have one of the highest success rates of any country when we do bid, particularly in the consulting field (up to 56 per cent), therefore, more bids would likely yield more contracts.

Why, then, aren't we participating? One reason for this is that exporters are not sure where or how to find information early in a project cycle. In a study commissioned by the Canadian International Development Agency (CIDA) last year, interviews with 52 Canadian exporters showed that early access to information on bank-financed projects was the foremost requirement to compete successfully. Many of the exporters felt that price and a high local profile were also very important.

In the study Don R. Allen & Associates Consultants Ltd. looked at Canada's procurement record under the Inter-American Development Bank between 1978 and 1983. The exporters interviewed included manufacturers of end products, consultant services, contruction/contractors, manufacturers of fabricated goods and materials and others. The study concluded that more information could be passed along through industry associations such as the Canadian Export Association and the Canadian Manufacturers' Association.

Information is also available in the United Nations' newspaper *Development Business*. This tabloid advertises all the projects being financed by loans from the World Bank and the four regional multilateral development banks. A quick flip through the paper's 16-odd pages shows general tender notices (the first public announcement of projects) and international calls for tender, which are printed a month after the notices. Dozens of business opportunities in dozens of countries are listed here—a new highway in Tanzania, a telecommunications system in Pakistan, a fine chemicals plant in Hungary. Projects in Africa, East Europe, South America, Asia and the Caribbean are all represented. At \$250 (U.S.) per year, Development Business will tell exporters what work is available through the banks.

It sounds like the ideal place to find business, and is has its place, but it is, as a rule, too late to get involved. The time to make contacts is while a project is still germinating within a potential borrowing country—sometimes even before a bank is approached for financing. Most companies interviewed for the Don R. Allen study scan fairly regularly the contents of *Development Forum* and the *Monthly Operational Summary* and, to a lesser extent, IDB *News*. But, while they found them to give a general feel for the types of projects being funded, they did not find them useful from a point of view of timeliness.

More than 65 per cent of all the respondents cited management time or policy as the reason they had never contacted the bank. "This suggests that corporate management does not feel that pursuing IDB for leads on business opportunities on IDB-financed projects is as profitable as other means of market development," the report says.

Granted, competition is tough. Companies are often at a disadvantage when bidding against local firms. During the past decade the share of Asian Development Bank projects going to local companies in that region has grown to about 20 per cent of all projects. Calls for tenders often require many small lots, which favor small and medium-sized manufacturers in the region enabling them to respond immediately and efficiently.

Despite the stiff competition (or because of it) there are many missed

opportunities. Responses from successful bidders for IDB contracts in the Allen study show that in addition becoming more informed, Canadian exporters must take a more aggressive marketing approach.

Normally the bid that complies exactly with what is asked for, at the lowest price, wins multilateral contracts—not just the lowest bid. "Too many Canadian bids are non-compliant," says Sylvia Potvin, export finance officer at the department of external affairs. "They ask for a Volkswagen and we give them a Cadillac." Factors to be considered besides price are: efficiency of operations, reliability, delivery schedules, availability of spares, and training. Canadian firms' technical abilities can, and often do, place them in the forefront.

J.P. Corbeil is director of finance and organization at Montreal-based Cégir. Cégir specializes in administration consulting and training and has offices in Dakar, Abidjan, Manila, and Switzerland to name a few. Corbeil warns: "You'll probably have to make your first contract a loss leader." In other words, plan on only breaking even. That way you can offer the lowest possible price until the country and bank are familiar with your work.

Corbeil says Cégir has had its share of loss leaders. Every time it enters a new country, it starts over. "However, if you succeed in getting your first contract and do a good job, you are identified in the bank's resource pool as a firm that can get the job done.

"First you have to get in touch with the bank," Corbeil emphasizes. "You have to be part of their resource pool." Then, if the bank judges a firm qualified for a certain project, it will put that company on a short list and invite a bid. According to Corbeil, the bidding itself is similar to domestic bidding. Step one is to register with the banks. "The registration form is fairly complicated. But once that's done you're in the process and you just go step by step." The bureaucracy, adds Corbeil, is large—there can be many delays and people to consult with—and international competition is fierce. But basically the process is the same as submitting a bid to the Canadian government for a Canadian contract.

In order to keep expenses under control Cégir is very selective about what it bids on. "We try and aim for projects that are definitely in our field of specialty. And we only bid on one project at a time. There's a lot of luck involved, in getting that first contract," Corbeil admits. Once already working in a country, though, the task is simplified. Contacts within a country and familiarity with that market means a firm is far more likely to obtain information about projects while they are in the planning stage. That could be years before a formal notice appears in the UN's *Development Business* newspaper or short lists are formulated by the development banks.

Students learn accounting at Montreal-based Cégir's Centre de Formation en Comptabilité in Madagascar—a World Bank project

Kenting Earth Sciences of Ottawa is another company that recently took all the right steps to win a $25-million ADB contract to undertake the airborne geophysical survey of Thailand. Kenting won the business after five years of effort. One of the factors that led to its success was that it used all the information available and was in close contact with all levels of decision making as the project developed. It maintained a strong presence in the country, ensuring familiarity with both the development bank and the executing agency in Thailand. Kenting made use of the facilities of the Canadian embassies—both in Manila, the bank's headquarters and in Bangkok. And the company made sure it knew and followed the procedural steps; that its bid complied with the project's specifications and was registered with the bank and that it had an updated file. And Kenting was not easily discouraged. A firm may be shortlisted three or four times before it wins any business.

Joint ventures or consortia make it easier to maintain the presence necessary to maintain contacts. A good agent can be very useful in keeping a company informed of such simple but crucial details as dates for prequalification, invitations to bid, issuance of tender documents, deadlines for submissions, opening of bids, negotiation of bids and award of bids. An agent may know about projects two to 2 1/2 years ahead of a tender notice.

Another way to get a jump on invitations to bid is to hire a service designed to find invitations worldwide and speed the appropriate ones to you.

Téléburo Inc. of Quebec city is such a company. It receives information on more than $10 billion (U.S.) monthly from more than 100 countries. Téléburo will tell firms how to obtain specifications or, if requested, it will use its own foreign contacts to get the specifications for companies. Téléburo also registers manufacturers in international files of suppliers. It is possible to be registered in more than 380 files of the American Department of Defence and close to 35 international organizations.

Companies that choose to register in the banks independently, however, must first understand how the banks work. "It's important to remember that the bank lends its money on the basis of a project cycle that spreads out over a long period of time," says Chuck Wilson, assistant to the Canadian Executive Director of the Washington-based World Bank. (All the development banks are patterned after The World Bank.) The cycle consists of five major stages: identification, preparation, evaluation, implementation, and final evaluation of the project. It can take up to 12 years for a project to go from identification to final evaluation.

Once a project has been identified and enters the preparation stage, it will appear in the bank's review of operations. Inquiries should be made to the bank when a project appears here—at the very latest. This stage could take one to three years.

Similar information is available for each of the banks. The Asian Development Bank publishes information on its projects in a monthly publication called Operational Information on Proposed Projects (OIPP). All the banks publish operations summaries and information on their loan program. All projects have to be listed here at least twice before they are approved by the board of directors. The African Development Bank has published a detailed guide for Canadian manufacturers and consultants on exactly who to talk to and what to ask when trying to find out about projects. The guide is available from CIDA or from the bank's head office in Abidjan.

Though companies must register with the banks, the World Bank's Chuck Wilson warns firms to "bear in mind that, even though you are registered, the big borrowers are sophisticated countries (Brazil and India) and they will find their own short lists."

At the second stage—evaluation—the bank's experts verify all elements of the project and submit an appraisal report to the board of directors. This report will include all the relevant information on the scope and details of the project (technical, institutional, economic and financial). It can be particularly useful to equipment suppliers and manufacturers who might be bidding on subsequent stages of the project's implementation. Copies of it can be obtained from the relevant bank's head office or sometimes through the Canadian Commercial Corp.

Once the board approves the project, implementation begins. The agency appointed by the borrowing country to execute the project will select consultants, contractors and suppliers through the international call for tenders. At this point they will want to go ahead as quickly as possible. Deadlines for responding to tenders will typically be very short, often six weeks to two months and much of that time will be taken up with obtaining the specifications and sending in the bids. As a rule, the general tender notices are sent to the Canadian embassies in the cities where the banks are headquartered before they're sent to *Development Business*. The actual invitation to bid has to be advertised in a newspaper in the borrowing country as well.

Close ties with the decision makers and technical experts in the executing agencies are important. These are the organizations that prepare the terms of reference, draw up the short lists, if any, and the call for tenders, examine the proposals received, select of one of them and finally, negotiate the contract—in short, manage and administer contracts under development programs—though all these steps are governed by a series of controls by the bank. Executing agencies are usually the country's ministries, public utilities and state corporations. Many companies believe that the banks make the preliminary selection of tenders and send their bids to the wrong place. Unless expressly ordered otherwise, only the executing agency is the official receiver of submissions.

One simple way for smaller manufacturers to ease into the international competitive bidding process is

Continued on page 60

Wanted: Reliable Foreign Agent

Thirty countries have passed laws to protect the rights of local dealers. Knowledge of these laws is helpful, but the best defence is picking the right person

By John Day

Canadian businessmen thinking of selling their products in foreign markets may choose from a number of methods. They may establish subsidiaries in foreign countries under the local laws of those states. They may combine their efforts with those of other exporters to form a joint exporting agency, or an exporting partnership or consortium. More usually, however, they will seek out and appoint representatives in foreign countries and conclude agreements with them. Generally, an agreement by which a foreign person (whether an individual or another recognized legal entity) is appointed to promote and solicit products of Canadian exporters can be characterized under two broad types: a distributorship agreement, or a sales representative or commission agent agreement.

Under the distributorship agreement, the foreign person acts as an entity independent of the exporter, buying and selling for its own account, and is compensated by the mark-up it charges on the goods it sells. By contrast a sales representative or commission agent usually does not buy or sell for its own account and is, instead, compensated by a salary or commission based on the sales made in the foreign market by the exporter. In this article, the term supplier will be used when referring to exporters and the term dealer will be used when referring to distributors, agents and other similarly functioning persons or entities.

Because of the size of the Canadian market, most suppliers seeking to enter foreign markets will most likely be aware of and have developed domestic dealership contracts, the terms of which they have amended over time so that they now feel comfortable with them. Absent of any applicable statutory or customary provisions of their law, the courts of most foreign countries will apply the general common law of contracts to dealership agreements and these domestic contracts with only some slight amendments may prove entirely satisfactory.

The suppliers' freedom to contract abroad with foreign dealers is subject to the provisions of local legislation

The suppliers' freedom to contract abroad with foreign dealers is , however, subject to the provisions of local legislation which can create pitfalls for Canadian exporters who do not take the time to become aware of them. In certain countries, statutory provisions or judicially developed doctrines exist that restrict the freedom of supplier and dealer to contract in the field of dealership arrangements. On investigation, the supplier will find that about 30 countries have become quite sophisticated at protecting their dealers' interests and have passed special legislation designed to protect and expand the rights of dealers. As these countries have become increasingly more proficient at passing local laws to protect their distributors and agents, the adoption by other countries of such legislation is becoming ever more prevalent and complex. Typical of such legislative restrictions upon the freedom of contract in the dealership area is the rule that a dealership agreement may not be terminated or not renewed, even in accordance with its terms, without payment of indemnification to the dealer unless the dealer is found to have committed certain defined breaches. The agreement of the parties as to what shall be the duration of their agreement and what shall constitute breach under its terms is thus overridden by the terms of specific legislation, frequently to the pecuniary detriment of the supplier. The prototype of such legislation was the Puerto Rico Dealer's Act of 1964.

Today Canadian companies that seek to sell their goods in foreign markets through the intermediary of a foreign dealer must be especially wary of foreign legislation that can trap the uninitiated. To be able to assess the sales potential of a foreign market, the Canadian supplier needs a broad understanding of the implications of the dealership agreement viewed from the perspective of such foreign legislation as may govern the arrangement. The types of foreign legislation that have application to distributor and sales representatives normally fall into three main categories:

- legislation enacted specifically to protect dealers;
- local labor laws that may be interpreted to apply to dealers, and
- laws prohibiting or restricting the use of dealers.

The most typical feature of legislation enacted specifically to protect dealers is the restriction placed on the manner and consequences of termination. Such legislation normally provides that, notwithstanding the existence of a term of the agreement reserving to the supplier the unilateral right to terminate the relationship, no supplier shall act to the detriment of the relationship (including terminating it) or refuse to renew the relationship except for just cause, the terms of which have been set out by the legislation itself.

The supplier may well find in these jurisdictions, for example, that it cannot terminate for the failure of the dealer to meet minimum sales quotas and that it has assumed obligations such that without a breach of an essential obligation (as determined by reference to the foreign legislation and not the contract terms) termination may be achieved only by making substantial payments to the dealer; or that it cannot terminate dealers that have turned out to be unsatisfactory; or that despite its willingness to pay statutory compensation, a dealer is able to foreclose that market to the supplier either by obtaining an injunction against the appointment of any new dealer pending trial of his dismissal suit or by its ability to block registration in the foreign country of any new dealer. Any supplier so affected will find that it has been forced by the local legislation to assume far more onerous contractual obligations than those they had stipulated or bargained for.

Termination compensation provided by legislation passed to protect dealers can reach serious proportions. In some countries, the total indemnification may reach the equivalent of average dealer profits for up to five years. Furthermore, in those countries where the potential for compensation requirements are the greatest, the legislation normally provides that, due to the public policy consideration of protecting local dealers, any contractual waiver of compensation by the dealer is ineffective.

Certain countries, especially in Europe and Latin America, may apply their labor laws to the dealership arrangement. Where this is done, their labor laws may require payment by the supplier of severance pay or of social security and disability compensation on termination. Such applications will usually occur only if the dealer is an individual as opposed to a corporation or other non-natural legal entity, or if the dealer is deemed to be an employee of the supplier because of the nature of the relationship between them as evidenced both by the dealership agreement itself and by their course of conduct. The risk to the supplier will be greater if it has concluded an agency relationship rather than a distributorship arrangement.

For the most part, legislation prohibiting or restricting the use of dealers is designed to protect the public, and not the dealer, from unscrupulous middle men. Certain countries, primarily Middle Eastern and socialist countries, prohibit the use of dealers generally while other countries may prohibit the use of dealers in respect of sales made to government agencies. Some countries have prohibited foreign nationals from acting as dealers within their borders. Countries may also prescribe by regulation the duties and conduct of dealers within their borders and require disclose and central registration for all dealers. Some countries have placed restrictions on the use of more than one middle man. Such legislation hinders the use by manufacturers of distribution companies to oversee the worldwide distribution of their goods and may also prevent the suppliers' local dealers from appointment subdealers or service representatives. In still other countries, Saudi Arabia for example, local dealers are required to be appointed in order to effect some or all sales.

It is obvious then from these brief remarks that the appointment of a foreign dealer can entail the application of some quite extensive foreign laws. While a basic understanding of some of the problems involved with the appointment of foreign dealers will probably prevent litigation and expense, nevertheless, the most important factor for the supplier will always be the choice at the outset of the right dealer. Where the performance of the dealer is satisfactory, termination and other related problems will probably not become issues. ◄

This article has been prepared by John W.R. Day. The majority of this article is a précis taken verbatim of an original work by André M. Saltoun and Barbara Spudis entitled "International Distribution and Sales Agency Agreements: Practical Guidelines for U.S. Exporters" published in 38 Business Lawyer pp. 883–912.

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More than its Name Implies

The Canadian Manufacturers' Association made its name as a successful lobbyist. But it has also been helping exporters for more than 80 years

By Ken Mark

Names can be deceptive. The Canadian Manufacturers' Association CMA may not have export as its middle name, but it need not take back seat to anyone promoting overseas sales of Canadian products.

Still, the CMA is probably better known as an industry lobbying group making known the thoughts of its members — 8,000 firms representing 80 per cent of Canada's total industrial output — to government leaders and bureaucrats. With that much clout, when it speaks, others listen.

But for the 75 per cent of its members that are small companies with fewer than 100 employees, many of which cannot afford their own export departments, the CMA offers a host of services to help them find and keep overseas customers. These include export counselling and educational materials contained in newsletters, booklets and seminars. In addition, the CMA has set up links with sister organizations in countries such as Thailand and India to open large and small doors for Canadian exporters seeking to do business there. These activities recall the days at the turn of the century, when the CMA opened overseas offices in several countries to which Canada sold goods. That network became the forerunner of the trade commissioner service.

Regardless of their size, companies often need immediate answers to exporting questions. That's the job of the CMA's export adviser, Hilda Duplitza.

Over the years Duplitza has helped thousands of people many of whom have become her admirers. One of them is Margaret Drake, executive secretary with Maccaferri Wire Products in Agincourt, Ont. "Hilda can answer the questions I ask her off the top of her head," she recalls. "But the best tip she ever gave me was introducing me to Costpro in Ottawa. Thanks to their system of overlays, we have reduced the time it takes to prepare U.S. export documentation from two hours to 20 minutes per shipment."

This service is for CMA members only. But Duplitza will answer one simple question free for nonmembers.

Hilda Duplitza (top), and Doreen Ruso of the CMA provide help to firms in need of export leads and information

CMA annual membership fees are based on the number of employees the firm has and its annual sales. For a company with fewer than 10 employees and less than $250,000 in sales, the fees are $315.

Sixteen years ago, Duplitza developed, and continues to lead ,a two-day "Course in the Principles and Practices of Export Documentation" aimed at teaching exporters to understand and prepare their own export documents.

Complementing these domestic services are overseas activities, supervised by export development manager Doreen Ruso, which focus on establishing international connections with similar organizations in target countries. These enable Canadian firms to participate in trade missions and trade fairs, as well as to meet incoming buyers. Since the groups in the host countries are extremely well connected, they offer Canadian exporters immediate access to the highest government and business circles.

Currently, the CMA's activities in India are on the front burner. In the spring of 1984, Ruso led a Canadian International Development Agency-(CIDA) and Ontario government-supported trade mission to India involving 14 firms which led to four of them signing exports sales worth $5 million, three of them appointing local agents and four of them negotiating with Indian partners for joint-venture deals. And to cement the Indian connection further, this summer the Association of Indian Engineering Industry established an office at the CMA's Toronto headquarters.

To supplement these services, the CMA periodically sponsors Export Forum Seminars focused on specific issues and targeted markets.

And to keep its members informed, the CMA also produces a wide range of publications. ◄

For more details, contact The Canadian Manufacturers' Association, One Yonge Street, Toronto, Ontario M5E 1J9. (416) 363-7261. Telex: 065-24693.

Canadian Export World Supplement/September 1985

Business Alternatives in the United States

- ☐ *Economic Neighbours*
- ☐ *Basic Planning*
- ☐ *Executive Decisions*
- ☐ *Setting Up Options*

Options for Getting Started

By Jerry Faivish

A number of Canadian manufacturers and distributors have become successful exporters of products and ideas. The destination of these goods and ideas is the United States. After all, the United States is Canada's largest export market and more than 75 per cent of our exports go to that country alone. Therefore, it is quite understandable that many Canadian manufacturers and/or exporters contemplate whether—or how—they should set up in the United States, and investigate the possibility of actually establishing themselves in the country in addition to selling their products and ideas from Canada. The reasons for doing so are numerous, and may include any one or a combination of the following: closeness to market; cheaper transportation costs; regulatory requirements; government incentives, currency control and desire to learn firsthand about the American market.

One of the next and possibly hardest steps that faces the Canadian company is determining the type of involvement that would best meet the company's overall goals. Obviously, there are different ways of getting a foothold in the United States. Each method has its advantages and disadvantages, and each requires varying degrees of involvement. This article will highlight two basic types of involvement—direct and indirect investments—and will explain examples of each.

These are arrangements under which the foreign company is usually able to sell its product, but avoids the tax liability to which a U.S. resident company might be subject.

A distribution agreement facilitates the sale of products or ideas without the foreign company's actually establishing an office or plant in the United States. The foreign company usually enters into a contractual agreement with its American counterpart to distribute or promote its products for a certain period of time and within a certain area. At the beginning, if the foreign company sets up in the United States at all, it is to monitor the arrangement.

In a similar vein, one can enter the U.S. market by entering into a licensing agreement where technology, know-how or product designs are transferred as opposed to finished products. Generally, the originator of the technology allows a local manufacturer or producer to make the product locally, and the Canadian company is reimbursed with a flat fee or royalty payments in accordance with the contractual terms negotiated between the parties. Needless to say, the extent of participation, if any, by the Canadian company is one that is open to negotiation and is based on the needs of the Canadian company and/or its position of strength when negotiating with the American licensee. As a general rule, the greater the involvement of the Canadian company, the more likely it is that the company will change its involvement from an indirect investment to a direct one, assuming the initial involvement was successful.

Direct investments involve the actual establishment in the United States of some sort of business entity designed to carry on the day-to-day functions of a business. While the concept may seem simple at first, one should realize there are many ways of


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establishing a direct investment and, as always, each method has its pros and cons depending on the specific needs of the Canadian company.

Almost any business entity can operate a branch without too much difficulty by simply registering the foreign company in the state or states in which it intends to operate. However, because the establishment of a branch may qualify the Canadian company as a U.S. one for U.S. tax purposes, many Canadian companies set up a legally separate entity.

One of the fastest ways of establishing a presence in the United States is by acquiring an existing business. Using this mechanism one simply acquires all the assets and liabilities, know how, and goodwill of a company. For all practical purposes, the Canadian company has established a presence in the United States even if the market does not recognize it as a foreign one. In essence, the American company has not changed, just the ownership of it. While we tend to associate acquisitions with large stock takeovers subject to certain restrictions in some regulated industries, anyone can buy an American company and carry on its business.

In a merger or amalgamation, two or more companies pool their assets, their liabilities and, in certain cases, their corporate history to form one new entity with either a new business identity or one which owes a great deal to the dominant merging party. However, if a Canadian firm wishes to receive some of the tax benefits of a statutory merger, it should take great care to comply with all requirements of the American Revenue Code, one of which is that a merger must be between two American corporations.

Joint ventures are symbiotic relationships in which two or more parties form a business entity for a specific purpose and for a specific period of time. In other words, the relationship ends when the purpose has been accomplished or when the parties can no longer live with each other. Usually a joint venture is contemplated and/or organized to take advantage of each company's strength. For example, one party may have the technical expertise and the other party may have the financing. While the term joint venture is used quite loosely, it is not really a legal entity per se, and it may take the form of any of the other legal entities which will be described later.

Starting from scratch is probably the simplest way of setting up a business in the United States, as one simply decides that he will create a new entity which will carry on the business in the United States separate and apart from other partners or entities. As ownership usually remains with the Canadian company, the American business becomes subsidiary to the Canadian one, or at least somewhat associated, in fact because of similar ownership. For the most part, there are very few restrictions for a foreigner starting up a business in the United States but there are certain industries— agriculture, communications, transportation, etc.—which may require a majority ownership or control by Americans.

Having decided how to enter the U.S. market, one must then choose the structure or format by which to implement that decision. In this sense, the business entities available in the United States are very similar to those found in Canada. The major ones are: sole proprietorship, partnership, limited partnership and corporation or limited company.

The following chart lists in point form some advantages and disadvantages of the abovementioned business entities.

TYPE OF BUSINESS OR ORGANIZATION	POSSIBLE ADVANTAGES	POSSIBLE DISADVANTAGES
Sole Proprietorship	Flexible Informal Some deferred taxation and deduction of expenses as opposed to operating personally	Owner of the business is personally liable for all of the debts and liabilities
Partnership	One partner can act for the partnership in the absence of the other. The consequences of the business flow through to partners. Minimum legal formalities regarding operation of the business.	Each partner is not only liable for the obligations of the business, but also the partner's liabilities relating to the business. A system of trust and checks and balances must be created to control activities of partners. Difficult to control actions of other partners.
Limited Partnership	Liability of limited partner limited to amount of capital contributed. Tax consequences flow through to partners.	One should make an extensive agreement between the limited partnership and the general partnership to describe and determine the relationship between partners.
Limited Company or Corporation	Limited Liability Company separate from shareholders Continuity of existence	Taxed as a separate entity More closely regulated than other entities.

Often the experience of expanding into foreign markets, especially to the United States, is just the first of many steps by which Canadian companies can expand and compete in the world market place. By being close to world markets and producing and marketing good products, many Canadians can become leaders in their industries. Northern Telecom, for instance, started its U.S. operations with a sales office in Boston. Now it is listed on major U.S. stock exchanges, has sales offices throughout the United States and has a manufacturing plant in Tennessee. There is an expression, popularized by John F. Kennedy, which aptly describes the beginning of this process: "The journey of 1,000 miles begins with a single step."◄

Jerry Faivish practises law with his own firm in Toronto. He deals in import and export law, business, commercial and corporate law.

Economics Has Made Us Partners

By Ken Mark

"Geography has made us neighbors. History has made us friends. Economics has made us partners. And necessity has made us allies. Those whom nature hath so joined together, let no man put asunder."– President John F. Kennedy, Ottawa, May 17, 1961.

Economic interdependence and co-operation have long been the cornerstone of trade relations between Canada and the United States. By just looking at the trade figures between the two countries it is easy to see that they they are far and away each other's best customer. In 1984, for example, 75 per cent of Canada's exports were shipped to the U.S. while 25 per cent of theirs came northward. That year, two-way trade totalled $150 billion (Can.).

And yet, the two countries as adjacent as they are, remain remarkably separate and independent. So separate it seems, in fact, that there exists a fair amount of misinformation about Canada in the U.S. In a recently released poll commissioned by the Canadian Embassy in Washington, most Americans named Japan as the United States' most important trading partner. However, the respondents did note that Canada was the U.S.' most reliable and trustworthy military ally.

Canadians often like to refer to their co-occupancy of North America with the U.S. as cohabitation between a mouse and an elephant. This leads to fears about what would happen if the elephant ever rolled over or how the mouse can get its way when its demands are contrary to what the elephant wants.

Animal analogies aside, there has been a great deal of co-operation between the two. Huge projects such as the St. Lawrence Seaway opened up the Great Lakes waterway system shared by both to ocean-going ships. And then there are the examples of duty free access to U.S. military procurement under the Defence Production Sharing Program (1960) and free trade in the auto industry as spelled out in the Auto Pact (1965). Currently there is a test study involving Nova Scotia firms using the BidNet system which will enable them to tap into the multi-billion dollar public procurement market of U.S. federal, state and municipal governments.

Prime Minister Mulroney greets President Reagan descending from Air Force One as they begin the 'Shamrock Summit' in Quebec City

At present, a 'window of opportunity' which may not remain open for long exists to introduce some form of free or enhanced trade between the two nations. The United States has already taken the bold step of establishing such a bilateral trade agreement with the State of Israel. However, the agreement awaits U.S. Congresssional approval.

This spring, the Canadian government, for its part, issued a discussion paper, *How to Secure and Enhance Access to Export Markets* which included a long section on free trade with the U.S. The three options it outlined, a comprehensive agreement, a framework agreement and maintaining the status quo all contain elements of risk. But at the 'Shamrock Summit' held in Quebec City between President Reagan and Prime Minister Mulroney this spring, both leaders agreed that the time had arrived for serious discussions on the matter.

The economic arguments in favor of free trade are clear. The removal of tariff barriers would ease the movement of goods in both directions. This will force Canadian firms to increase their manufacturing productivity in order to make their products more competitive in open international rather than protected domestic markets. Numerous organizations such as the Canadian Manufacturers' Association and the Canadian Federation of Independent Business—the largest grouping of small business—have come out in favour of free trade. Others, however, argue that such changes will destroy Canada's already fragile manufacturing base. Before it proceeds with negotiations, Ottawa has encouraged all concerned to make their views known in order to build a strong national consensus on the issue.

At the same time, Canadian and oth-

ers are disturbed by the current wave of protectionist sentiments sweeping the United States. This has threatened many traditional Canadian exports such as steel, lumber, hogs and foodstuffs containing sugar and other products. And behind these specific measures, hovers the ultimate trade weapon—a tariff surcharge on all imports similar to the one imposed by President Nixon in 1971.

These actions have forced Canadian manufacturers to lobby in the halls of Washington to protect their interests, something they had never had to do before, relying instead on the mistaken belief that an unspoken 'special relationship' with the United States would look after them. But faced with these crippling threats to their U.S. sales, the Canadian steel industry mustered sufficient resources and arguments to make a persuasive case for the benefits of trading with Canada. Ultimately their efforts were successful in blocking attempts to impose quotas on Canadian steel. Other Canadian industries are slowly learning this painful lesson for themselves.

In trade matters, Canada is hardly a a Boy Scout. Our policies have raised the ire of foreign exporters and investors. Actions such as the National Energy Policy (NEP) and the much maligned Federal Investment Review Agency (FIRA) were perceived by many Americans as being deterrents against their investments in this country. Recently both these programs have either been scrapped or reorganized with a view to announcing to the world that Canada once again welcomes investment from others.

Despite these controversial national policies; state, provincial and even municipal governments on both sides of the border have established economic development commissions to encourage foreign companies to set up offices and plants in their localities. Their objective is to create more jobs. Several Canadian provinces have opened trade offices in the United States to supplement the 14 operated by the federal department of external affairs. In the same way, agencies from various states have offices in Canadian cities to inform companies of available incentives for expanding their operations south of the border.

Such a strategy, however, represents Phase II of an integrated export program. The first step, of course, is to penetrate the market and build up a strong sales base. To help achieve this

beachhead, federal and provincial trade offices offered invaluable assistance. One of the more innovative programs is the Ontario government's New Exporters to the Bordering States (NEBS) under which potential exporters are bussed to places such as Buffalo and Detroit to meet U.S. Customs officials, freight forwarders, warehouse operators, and manufacturers' agents.

Once such markets have been successfully established, Canadian exporters must examine the advantages of setting up a permanent U.S. presence in the form of a sales office, warehouse or manufacturing plant.

Such a presence eliminates the cost of import duties and reduces transportation expenses which can help products be more cost competitive against locally made ones. These on-site offices also enable Canadian firms to service customer needs more closely.

A recent report on foreign direct investment by Canadian firms concluded that they set up foreign operations in order to:

- overcome trade barriers in the export market such as the "Buy America"campaign. e.g., Bombardier Ltd.'s and its contract to supply subway cars to the New York City transit system.
- strengthen the existing business of the Canadian parent through acquisition and expansion. e.g. the Bank of Montreal's purchase of the Harris Bank.
- diversify into other businesses different from those in which the parent engages in at home. e.g. Imasco's purchase of Hardee Food Systems, the fifth largest fast food operator in the U.S. In Canada, Imasco's activities are focused on tobacco products and retail sales.

In addition, the study found that there were strategic benefits such as expanding markets and production volumes as well as gaining new management expertise. It also allayed fears about losing Canadian jobs from such initiatives because the foreign operations usually resulted from the expansion of business which could not be supplied from existing domestic operations.

For many Canadian companies, the U.S. is the ideal place for initial expansion because of its proximity, the similarity of business practices and market needs and the lack of major cultural and linguistic barriers. For all firms, large and small, the experience of setting up a successful U.S. operation can prove to be an effective learning tool for later expansion into markets in the Pacific Rim.

Canada and the United States will continue to be each other's best customer. However, the worldwide trend is toward mutlinational blocs rather than individual national markets as the arenas of future trade expansion. This can be seen from the success of the European Economic Community (EEC), the Association of South-East Asian Nations (ASEAN), the Andean Pact in South America and the Caribbean Economic Community (CARICOM). Domestic markets are simply too constraining for firms bent on expansion.

Between Canada and the United States, there is more that unites us than divides us. Whether or not some form of free or enhanced trade ever materializes depends on the political will of elected officials in both countries. On a more individual level, closer economic integration of our two nations will depend more on the imagination and initiative of far-sighted business leaders who can spot opportunties and find ways to cash in on them. ◄

Decisions, Decisions, Decisions

By Hubert J. Stitt and S. Janice McAuley

The material that follows is an outline of a presentation made by the authors at a recent seminar for Canadian businessmen contemplating foreign operations in the United States. It is intended as a point-by-point overview of potential decisions and not as an in-depth discussion of the subtopics. In preparing for this presentation, the authors attempted to find a middle ground between a detailed legal analysis and a peripheral, general overview. The presentation provided a summation of basic concerns rather than a detailed, technical analysis. In addition to the above, a detailed analysis of specific contracts for the purposes of negotiation was presented and may form the subject matter of a later article in this publication.

DECISION #1: Whether to venture into the international market. It would obviously be impossible to compile an exhaustive list of reasons why companies go international. From our experience, however, the following are fairly representative and a somewhat comprehensive representation of motivating factors:

1) Local Market Saturation—With Canada's limited population, an aggressive company could have saturated the local market and then decide that the only real avenue for growth would be to expand south of the border or elsewhere.

As a recent example, one of Canada's leading retailers and a manufacturer of women's and men's clothing, decided that Canada as a marketplace had limitations. They proceeded to acquire three formidable retail chains in the United States, as well as one manufacturing company, and simultaneously commenced a program of opening 10 stores in the United States through one of its men's wear divisions.

National flags snap in the wind at the Peace Bridge border crossing

Ontario Ministry of Industry Trade & Technology

2) Unique Product Not Available in the Foreign Market—A recent example of this factor is the exploitation of the game Trivial Pursuit by Canadian entrepreneurs.

3) Production Know-How—"Know-how" is often exploitable. Soviet Russia has recently indicated that it is considering awarding contracts to Canadian firms based on know-how in processing certain materials indigenous to both Russia and Canada. Canadian firms are discussing contracts pertaining to six major thermal and hydro projects in China, and know-how from similarity in climatic conditions may give the Canadian companies the advantage.

4) Desire to Enhance Goodwill of Trade Name or Trade Mark on an International Scale—The capital value inherent in an internationally known mark or name is obvious. Advertising material and promotional techniques may be equally relevant north and south of the border.

5) Enhance Production Economies—Because of cheap or skilled labor, availability of raw materials, or proximity to the marketplace, production in the country of ultimate sale may be more economical than producing abroad.

6) Specific Foreign Inquiries—It is not unusual to find that an aggressive foreign company actively pursues a Canadian manufacturer to obtain the foreign rights. Enhanced profits with zero increased costs could result.

7) Foreign Project Specifications may Dictate Local Sourcing—It is becoming more common for Canadians to bid on foreign projects. The specifications either specifically or practically may require local sourcing and increased involvement in the foreign jurisdiction. This could be particularly relevant to tenders on foreign government projects.

8) Cross-Border Opportunities for Service Industries—Services, as well as goods, can be exploited internationally. It may be that personnel such as architects or engineers have acquired talents that will earn profits abroad for the company.

9) Proximity to Border—A typical example is the automotive industry, located in Windsor and Detroit, where transborder transactions are commonplace.

10) Customers' Requirements—A company that has traditionally exported may find that a foreign customer requires local distribution and

service. That company faces the choice of losing the customer or expanding abroad. For example, a U.S. automobile producer is introducing a program requiring immediate local availability of certain components. This may require foreign warehousing and staffing.

11) Tariff and other Barriers to Trade—Duties may render the product noncompetitive in the foreign market, thereby requiring local assembly or manufacturing.

12) Enhanced Profits—Last but not least, the decision to venture abroad may not be triggered by any of the above factors but simply motivated by the possibility of enhanced profits.

DECISION #2: Ascertain the appropriate commercial method of expanding abroad. Again, although the following list is not exhaustive, it is fairly indicative of the options available. The list is compiled so that the degree of involvement with the foreign jurisdiction increases with each subsequent option.

1) Export—This is the most common and simplistic method of capitalizing on foreign markets. The degree of involvement with the foreign jurisdiction need only be minimal.

2) Export with Control of Foreign Distribution—The difference between this and the first option is that the exporting company will attempt to control the channels of distribution, either with its own distribution network or by hiring the foreign distributor.

3) Licensing—There are many assets that could be profitably licensed, such as trade names, patents, production techniques and know-how.

4) Participate with Local Consortium on Bidding for Foreign Projects — This technique is becoming more common and often receives the support of the Canadian government. Such projects as the Chinese hydro facilities mentioned above, the Hong Kong subway and the Venezuelan rapid-transit system are examples of this increasingly important phenomenon.

5) Participate with Foreign Consortium on Bidding for Foreign Projects —This is a variation on number four above and may involve somewhat enhanced sophistication. The opportunity should not be ignored, however, in exploiting certain types of know-how. In the construction industry, for example, foreign partners are often essential.

6) Joint Venture—The permutations and combinations are infinite, but basically they involve the utilization of the local know-how of a foreign enterprise to assist the Canadian company in entering the market. The contractual arrangements are of paramount importance.

7) 100-per-cent-Owned Foreign Manufacturing or Service Company — This option comprises the ultimate involvement with the foreign country, with all the inherent risks. Obviously, a comprehensive knowledge of the territory is essential.

8) Foreign Acquisition—This is a variation of the option discussed above, with the possible advantage of acquiring local personnel and built-in market share. It is not unusual for the Canadian company to provide local management with equity as well as incentive bonuses.

Before expanding overseas, executives should examine the relevant benefits, means, forms, sources of materials and staff, financing methods and tax considerations

DECISION #3: Form of Enterprise.

1) Minimal Contact with Foreign Country—Quite often, companies wishing to sell in a foreign jurisdiction require advice as to the activities that may subject that company to the reporting requirements, regulations and tax of the foreign jurisdiction. Concepts such as "permanent establishment" and "carrying on business" are of concern. In certain circumstances, inadvertently "carrying on business" in the foreign jurisdiction can in itself subject the foreign entity to local tax.

2) Branch Operations—This format has the advantage of simplicity but the disadvantage of subjecting the local assets to the liabilities of the foreign operation.

3) Partnership with Foreign Entity—Direct partnership may involve unlimited liability and, therefore, alternatives such as the creation of a limited partnership or the creation of a shell partner should be considered.

4) Foreign Incorporation—A foreign entity is created or acquired subject to the full impact of the laws of the foreign jurisdiction.

DECISION #4: Sourcing of Material

1) Wholly Canadian—This approach is inherent in a simple export transaction, whether or not the Canadian company controls the channels of distribution.

2) Canadian Parts with Foreign Assembly—Customs factors often motivate this approach.

3) Dual Sourcing—Often, a foreign manufacturer will produce a key component in the foreign jurisdiction, with the remainder of the article manufactured locally.

4) Foreign Sourcing—Projects to supply government requirements frequently require local sourcing either as a mandatory element or to cater to the patriotic nationalism of the local country.

DECISION #5: Method of Financing

1) Utilization of Local or Foreign Government Incentives—Canadian examples are Export Development Corp., Canadian International Development Agency, external affairs, Program for Export Market Development and Promotional Projects Program. Foreign examples are Pennsylvania Industrial Development Authority grants (often by way of second mortgage where banks participate in the first mortgage); local state authorities often provide low interest, long-term loans to companies for purchases of land and buildings; local revenue bond and mortgage programs for machinery and equipment; community-owned Erie County facilities offered at 4.5-per-cent fixed rate financing (32,000 to 190,000 square feet).

2) Standard Banking Facilities, Local and Foreign—On major foreign takeovers, financing is sometimes provided through a consortium of banks.

3) Venture Capital Financing—Common in the United States and the U.K.

4) Sophisticated Acquisition Financing Techniques—Leverage buyouts, dual and triangular mergers, bonding techniques.

5) Transfer of Canadian Funds to Foreign Countries—Straight loan, equity, tax planning techniques, such as the one referred to as the Dutch Double Dip, utilizing Holland, the Netherlands Antilles and the United States. ◄

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Planning Helps Avoid Pitfalls

By Les Solomon

Doing business in the United States. One could expand at some length on the legal implications of setting up business in the United States—the pitfalls, things to watch for and the many regulations that will have to be adhered to. Many U.S. cities also have aggressive programs extolling the advantages of setting up in their domain and are specific on such things as availability of manpower, location, transport advantages, etc. All of these are important and one only has to look at a recent issue of *Canadian Export World*, for example, to notice the decided transport cost disadvantage that Canadian manufacturers and exporters labor under compared with costs across the border. The purpose of this article is, therefore, to look at the nuts and bolts of implementing such an expansion.

One would also presume that the philosophic decision to look to the U.S. market as a natural extension of one's business has also been made since this market is approximately 10 times larger than ours, and given our undoubted cost advantage at present vis-à-vis the Canadian dollar against its U.S. counterpart. Many Canadian manufacturers are finding in the United States an enormous market for their goods and now must find out exactly how to go about selling there and the possible effect of such expansion on the average small business. The best way to look at it is really to take some simple case studies on people who have already done just this. How did they go about it? What was the effect of their business?

I think the first point to bear in mind is that you are potentially looking at an operation at least as large (possibly five to 10 times larger) than your existing one. For example, a small-computer operator with a business doing an approximate $100,000 per month decided to expand into the United States. By expanding only into the market in the northeast, areas immediately south of its existing operations in Canada, an additional market of $100,000 per month opened up. Although manufacturing was not a problem insofar as capacity at the existing plant could easily be increased, the effect on cash flow was considerable. Inventories and receivables doubled, and the company's success meant that new financing had to be arranged for carrying of short-term assets, as well as long-term financing for some of the additional equipment needed. This is, admittedly, an extreme example and in many cases the expansion can be regulated at rates a company can handle. Interestingly enough, this same corporation had had an earlier failure in an attempt to set up a subsidiary in Arizona where a much smaller market and logistical problems of deliveries produced the entirely opposite effect.

Too often companies go into the U.S. market without any thoughts about how the product will be marketed and invariably take the wrong approach. The firm must decide whether to continue to have its own sales team, work through independent brokers, or work through distributors.

The profit margins are obviously very different in each of these approaches and the decision will have to be based not only on the volume of sales that one can expect but also on the volume of sales that one can initially afford. All too often the decision is made without thought about the potential effects on the existing business of the company and the existing cost and profit structure of the corporation's Canadian operations.

Canadian bankers on Wall Street provide useful financial services

Having made the decision to go, and having considered the format of the U.S. operation, the next step is setting it up. A number of alternatives are available:

- a subsidiary of the Canadian corporation;
- a branch of the existing Canadian corporation; or
- a new U.S. corporation set up independently by the shareholders of the Canadian corporation. (Such a corporation would be an associated company to the Canadian corporation but technically not a subsidiary.)

In practical terms we have found that the first alternative— that is, a

U.S. subsidiary corporation to the Canadian one—is usually the most flexible, particularly in the formative years. In practice, it is usually possible for the U.S. company to be effectively administered by the parent company. The parent company can initially handle the bookkeeping, provide management personnel as required and provide expertise on a cost-recovery basis.

Separate bank accounts will be opened in the United States and usually a U.S. dollar account for the corporation at the bank used by the Canadian head office. The funds would be transferred between this account and the U.S. operating account as required. All bookkeeping can initially be carried out at your head office, although dependent on the size it is usually preferable to have local receivables and payables through the U.S. operating account. The U.S. company would quote directly to its customers, issue its reports on its own letterhead and invoice its customers on its own stationary. Since, in the initial stages, a considerable amount of work will be carried out on the U.S. subsidiary's contracts by the head office personnel, the subsidiary will be billed monthly for these costs.

In general, the United States has a small-business tax structure similar to Canada's, small business being effectively taxed at an approximate 20-percent rate up to the first $100,000. Separate state taxes vary this generalized rate, although these taxes are usually deductible from U.S. federal taxable income. Tax planning is, however, necessary since the Canadian threshold for the small-business rate is higher. Especially consider other aspects, such as the Ontario Corporate Tax Holidays, ensure that start-up losses are used to the best tax advantage. For these reasons, consultations with counsel experienced in U.S. tax law is advisable.

Finally, there are logistical problems of moving staff backward and forward from head office. Should you wish to move people permanently, you will require Immigration approval (Green Card). Although some of this may sound complex or time-consuming, in practice it is usually possible and could be potentially extremely rewarding. ◄

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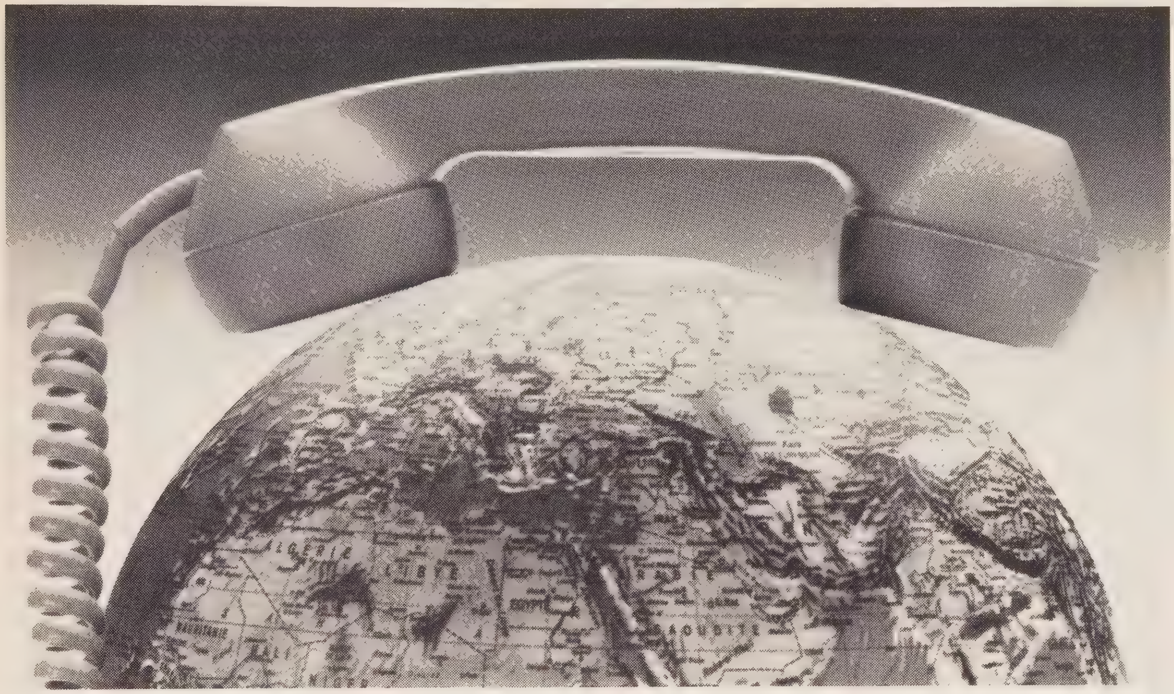
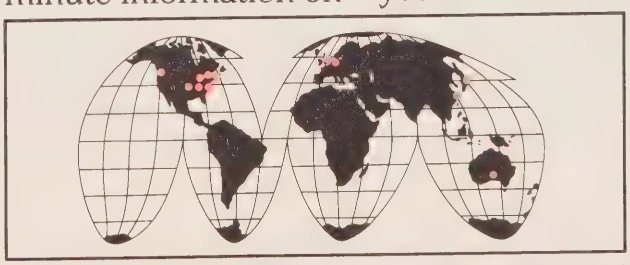




Going where the action is

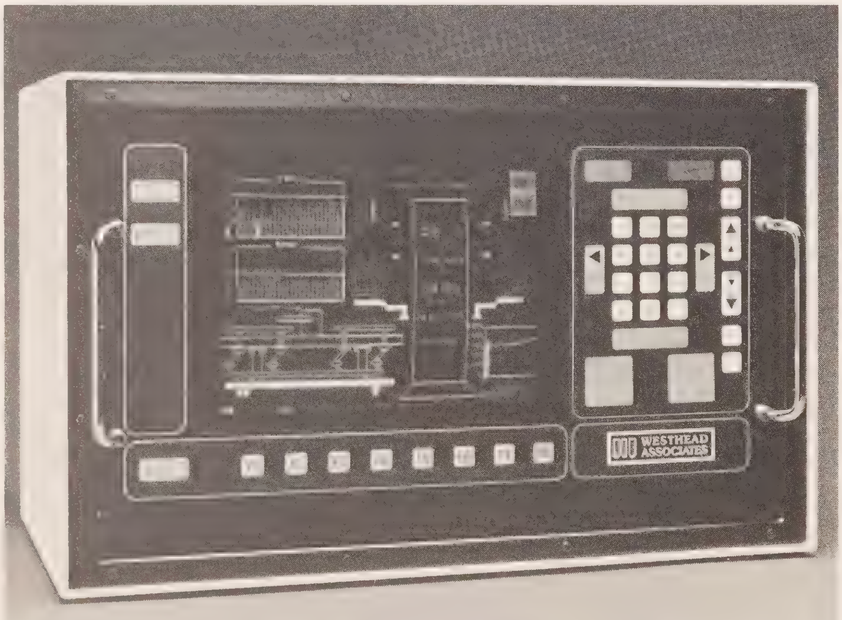
The best way of selling his firm's computerized production control and monitoring systems to the major North American carmakers was to "go where the action was" and set up shop in Detroit, Mich., decided Barry Westhead, president of the Rexdale, Ont.-based firm Westhead Associates.

The company is small (35 employees), young (five years old) and growing (estimated 1985 sales: $8 million). Of the firm's total output, 15 per cent is exported mostly to the United States. However, in the first half of 1985 the figure approached 40 per cent so that by the end of 1986, Westhead estimates that U.S. sales will exceed those in Canada. Since 1983, the firm's number one priority has been to pursue aggressively market opportunities in the south.

"The people at the Michigan Chamber of Commerce were super," recalls Westhead. "They gave us some office space with a phone, a list of contacts within the automobile industry and some help in finding a location." That location turned out to be a spot in the Metropolitan Center for High Technology, a modernized building in Detroit which serves as an "incubator" for a number of fledgling high-tech firms. In March, 1984, Westhead moved in.

Currently, the firm shares space with about a dozen other companies, none of which are Canadian. The occupants also share common office and laboratory services which none of them could afford individually. Since the rent is partially subsidized, there is a time limit on how long they can stay. Although Westhead is under no pressure to leave, it plans to seek larger quarters by the end of the year.

At present, the Detroit office, which employs six people—all of whom are Americans—is responsible for Westhead's service, subassembly, engineering and warranty work for all its U.S. installations. Once its foothold in the American market is firmer, the Detroit office will serve as Westhead's U.S. headquarters co-ordinating the activities of its regional sales office in northern Florida and its emerging distribution network along the eastern seaboard.



Westhead Associates' machine monitor helps keep tabs on factories

Westhead admits to being pleasantly surprised about how much easier it is in some ways to do business in the United States than in Canada. "For one thing, banks down there place more emphasis on the people and the concept behind the company," he explains, "than just on the numbers. They have given us a great deal of credit for our success over the past five years. Maybe they are just more willing to take risks."

He also discovered that state officials have a healthy bias in favor of local companies. Westhead believes that if the state had to choose between recommending a company based in, say, Indiana and a local Michigan one, all things being equal, it would choose the Michigan one because it was a local firm.

"Originally, I was apologetic about being a foreign business down there," Westhead recalls, adding, "But to the Michigan people, they consider us a 'home-town industry' as long as we are located in the state. And that's a big advantage."◄

Things are peachy in Georgia

"Our decision in 1979, to set up a factory in Atlanta, Ga.," explains Jim Giroux, vice-president, corporate management for iil Ltd. a Toronto-based manufacturer of fine executive furniture, "was based on marketing. We sell about 80 per cent of our annual $50 million to $55 million production in the U.S. so it made sense for us to locate there.

"Another reason, given my background in finance," he adds, "was to diversify geographically—not to put all our eggs in one basket—in order to minimize the damage if there were disruptions at one of our plants and to protect ourselves against other uncertainties such as foreign currency changes."

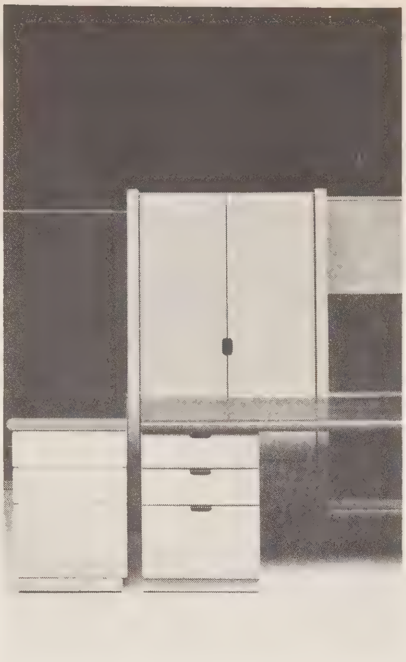
The move to Atlanta followed iil's mid-1970s strategy of setting up showrooms in New York City, Chicago, Houston and Dallas staffed by local representatives. There has been no need for warehouses because all furniture is custom made according to the client's needs. Once this system was working well, the next stage was to set up manufacturing facilities in the U.S.

Atlanta was chosen because it was approximately halfway between iil's

prime eastern United States and Texas markets. Another site was in the running, but the openness and friendliness of the people in Atlanta tipped the scales in its favor. State officials lived up to that faith by helping iil find a site, cut through red tape to secure a business licence and solve immigration problems. A number of the initial core group were sent there from Canada. However, now all but 20 out of the 500 employees are Americans.

A secondary reason for setting up in Atlanta did not quite match iil's original hopes. Although the firm's furniture is extremely well received in other U.S. markets, it took two years to crack the local Atlanta market (the Atlanta plant was profitable after seven months thanks to some very thorough homework). "It was a tougher market in which to sell our furniture than we had anticipated." concedes Giroux.

Besides the Atlanta, iil also opened showrooms in San Fancisco and Los Angeles—the thriving western market where it currently faces stiff competition. Once it gains a foothold, iil expects to expand further by establishing a plant there to complete a manufacturing triangle—with Toronto and Atlanta at the other two corners.



iil's classically modern furniture is now built in its Atlanta plant

Fears of nationalist feelings affecting U.S. sales have yet to be borne out. "We tell our clients that they can have their furniture in 16 weeks from our U.S. plant or eight weeks from our Canadian plant," Giroux says. "And they pick the one that best suits their schedule. In any case, we have a local presence as an American corporation."

The expansion into Georgia is not expected to affect Canadian production. Under a current reorganization, the firm plans to split production approximately 50—50 between the two plants, which are about the same size. Another reason is that the market is booming. The 1985 forecast of $50 million to $55 million is up 31 per cent from the 1984 sales figures of $42 million. Besides the Canadian and U.S. markets the Toronto plant also ships about $5 million per year overseas, mainly to England and Saudi Arabia.

Setting up a U.S. subsidiary, however, may not necessarily fit every company's needs. "Our major competitor," explains Giroux, "adopted the opposite strategy and tripled the capacity of its Canadian plant so they could supply the world from one place." But Giroux says he's happy with iil's decision because when selling across all of North America as iil does, he believes "you have to go where the action is."◄

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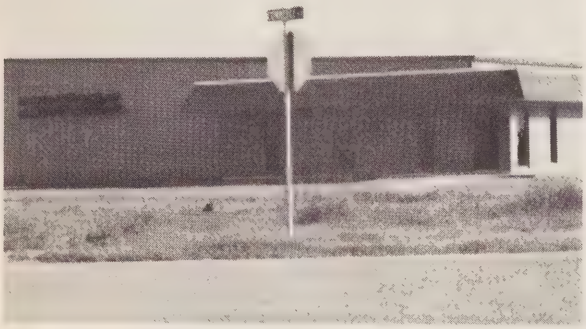

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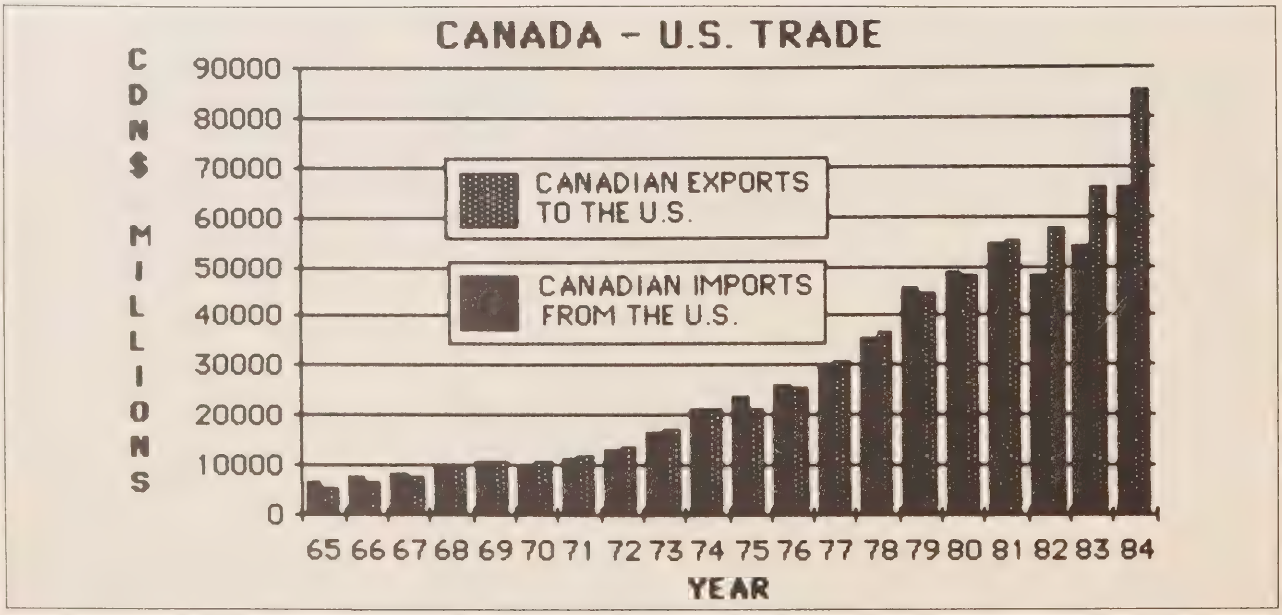

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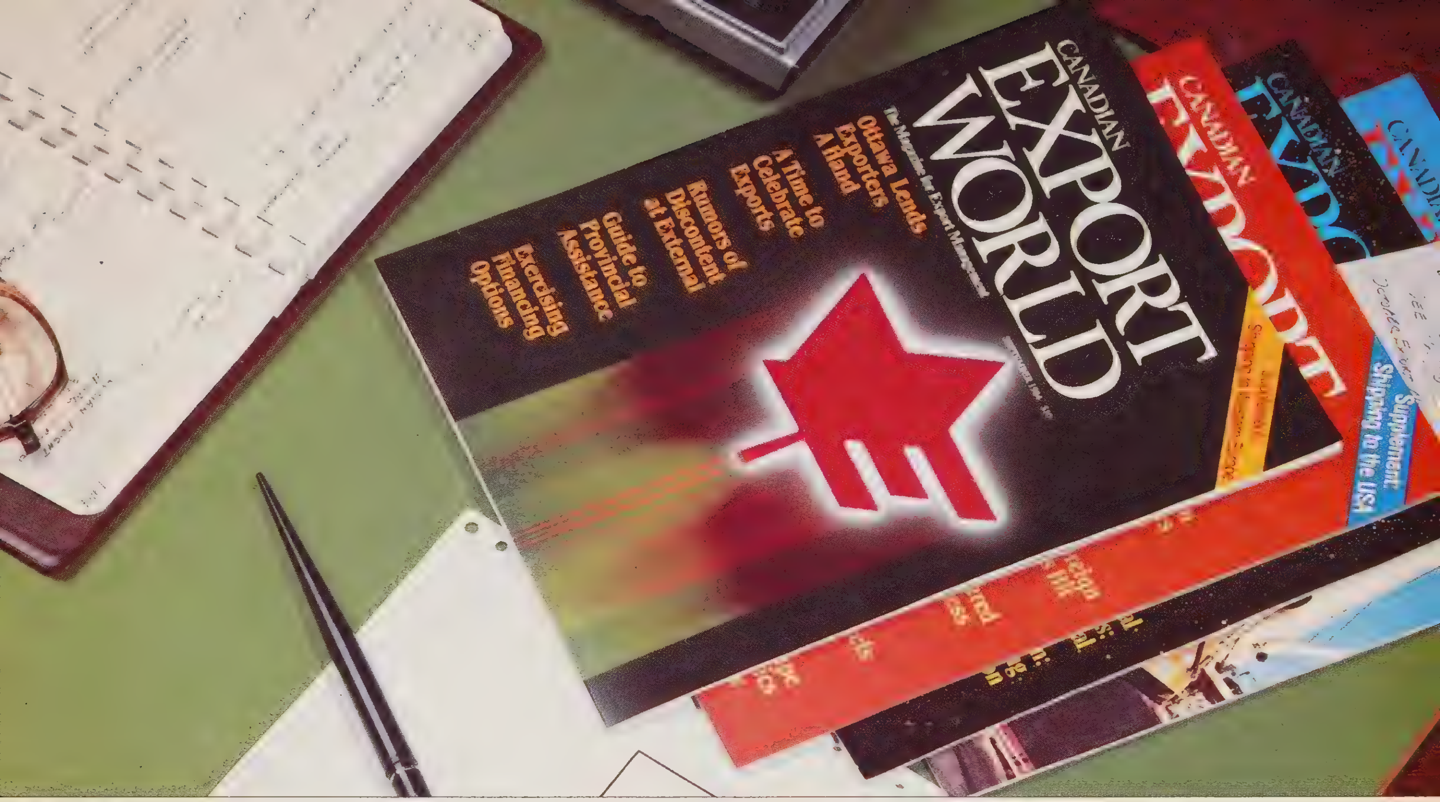
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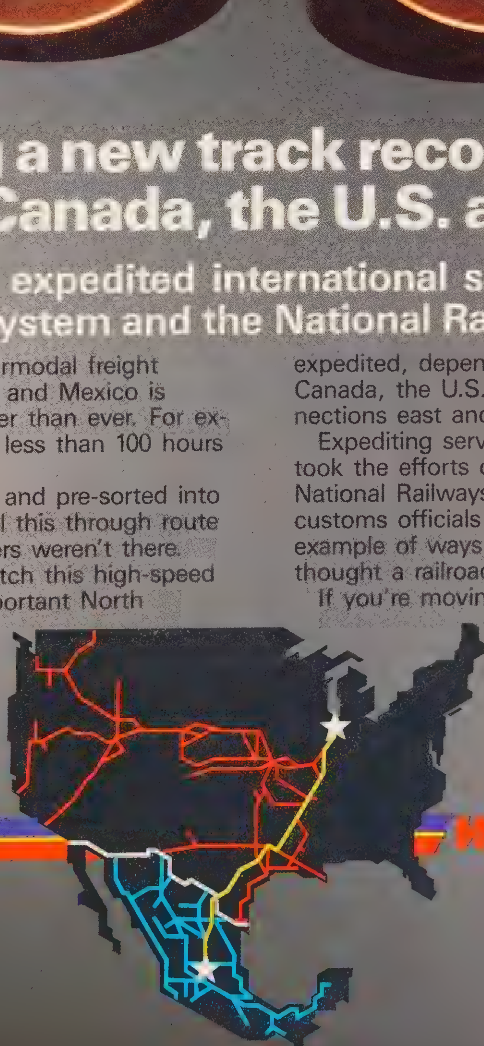

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Private or Common Carrier, That is the Question

By Cecil Foster

Many large export and import companies with fairly sizable shipments eventually face one decision—should it be a private or a common carrier. There are pluses and minuses on both sides. For example, with its own fleet a company has total control over the trucks' schedules, range and rates charged by one division to another. On the other hand, it must absorb all the operating, maintenance and administrative costs of operating a fleet. There is also insurance to buy and the need to keep the vehicles in good, running order.

Similarly, to make private trucking cost effective a company must have large, regular shipments to use its fleet fully—the greater the volume, the lower the unit cost. Owners of private fleets must also realize that their trucks will usually return empty since there are few backhaul opportunities. This puts more pressure on the company to ensure that the outgoing traffic is great enough to absorb the costs for both directions.

Alternatively, private owners will have to synchronize shipments so that all shipments to and from the same geographic areas are made at the same time. In this way, trucks can deliver finished goods and return with raw materials. However, this may not always be possible. On the other hand, engaging a for-hire trucker is more attractive for small one-time shipments. When shippers move small quantities, there is little need for their having their own trucks.

As the North American trucking industry continues to reel from the effects of deregulation, which will herald increased cut-rate competition for Canada next year, rates should be dropping for an indefinite period. This makes it more attractive for shippers to keep searching for the best price in the market rather than worrying about their own transportation costs and trying to increase their productivity.

On the negative side, shippers might be located in markets inadequately served by for-hire carriers, either in terms of equipment, schedules or price. In addition, there is a belief that since the Canadian trucking industry is not yet fully deregulated, it is still cheaper for a company to haul its freight to the border privately and then interline with a cheaper U.S. carrier.

Despite such views, a study prepared by two Statistics Canada researchers, Yvan Deslauriers and S.L. Mozes, and released at the Canadian Transportation Research Forum this spring helps to shed light on the current Canadian trucking scene. The study examined private and for-hire trucking, built profiles of them and compared their shortcomings. Its findings should make interesting reading for common carriers' logistics managers and traffic salesmen. For example, the study showed that trucking is the major freight transportation mode in Canada. Using data up to 1982, it found that trucking accounted for 58 per cent of total national operating transportation expense. Annual trucking costs for all freight was estimated to be $15 billion annually.

In fact, the study noted that the growth of the trucking industry over the past 30 years marked one of the most important developments in Canadian transportation. This has resulted from the development of manufacturing industries, technologi-

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A recent study concludes that private trucking is cost effective for shippers with regular volumes of traffic. One-time shippers, however, benefit more from for-hire truckers.

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Thanks to increased transatlantic capacity, Canadian exporters can expect good deals on shipments to Europe. But rates to the United States are likely to firm up.

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Despite the overall weakness in trucking Canpar, the small parcel division of CP Trucks, enjoyed a great year in 1984.

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Trucking firms must deal with deregulation and other pending legislation. Karl Wahl, president of CP Trucks highlighted some of the concerns in a recent speech.

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The lowly pallet helped revolutionize the Canadian distribution industry. Shippers have the option of buying or renting them.

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A new transportation framework to catch up to current global realities is needed to reinforce the productivity gains of Canadian manufacturers.

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New Conference Offers Old Rates 56

This spring, the newly-formed TransPacific Westbound Rate Agreement announced higher shipping rates. Market forces soon caused it to back down.

A COMPARISON OF PRIVATE TRUCKING AND FOR-HIRE TRUCKING 1982

	For-hire Trucking	%	Private Trucking (Estimated)	%	Total Trucking Industry	%
No. Firms	3,008	5.4	52,623	94.6	55,631	100
Equipment operated						
Trucks	18,795	5.8	303,800	94.2	322,595	100
Tractors	31,730	55.1	25,900	44.9	57,630	100
Trailers	78,816	62.7	46,900	37.3	125,716	100
No. Persons employed (Est)	81,000	22.0	287,000	78.0	368,000	100
Fuel Consumed (bill. L)	1.5	31.3	3.3	68.7	4.8	100
Fuel Cost ($bill.)	1.6	30.0	1.4	70.0	2.0	100
Vehicle kilometres travelled (bill.)	2.7	29.0	6.6	71.0	9.3	100
Est total operating expenses, ($bill.)	5.4	37.2	9.1	62.8	14.5	100
Fuel cost/km travelled ($)	0.22		0.22		0.22	
Average number of pieces of equipment per firm	43		6.7		9.0	
Average number of employees per firm	33		5.4		6.6	

Source: Statistics Canada

cal improvements, urbanization, the development of better roads and industrial decentralization. "These factors, in conjunction with the flexibility, speed and adaptability of the motor vehicle has resulted in an increase of the industry's share of the gross domestic product from an estimated 1.7 per cent in 1950 to 2.7 per cent in 1983," stated the report. For-hire carriers appear to benefit from economies of scale. However, annual maintenance expenses for them for a piece of equipment were about $3,000 more than for private carriers. The $12,000 difference "includes such items as traffic and sales expenses, administration and general office expenses that were not reported or applicable in the case of the private carrier. Total operating expenses of long-distance for-hire carriers represent 78 per cent of the total operating expenses of for-hire operators of more than four vehicles. The same ratio in the private trucking case is 23 per cent." The study concludes that these figures "confirm the concentration of for-hire carriers in long-distance hauling and of private carriers in short-distance freight transport."◄

Air Carriers Flying High

By Cecil Foster

Just when international air carriers were beginning to feel confident about the air cargo market, the federal government has added to the uncertainty of air transportation. It comes in the form of the federal government's White Paper on the Canadian National Transportation Act, which proposes to change the NTA to encourage competition between transportation modes, and among carriers.

Canadian air cargo is expected to be further deregulated, if the government implements its proposals. Carriers will be free to fly any route and to use any type of equipment without first seeking government permission. Just as important, the carriers will be able to drop any route without prior notice to shippers.

Since the recession, major air carriers have been waiting for the Canadian market to improve, for air cargo volumes to increase and for rates to firm up. Before the White Paper was released, it appeared that the carriers were about to get their wish.

So far this year, some Canadian carriers have enjoyed volume increases in excess of 30 per cent compared with last year, according to the International Air Transportation Association. Fortunately for shippers, rate increases did not keep pace with the volume increases. Rates have only recently started to firm up.

This is a significant turn around from three years ago. Then the major carriers were faced with the twin problems of the recession and deregulation in the United States. Because of the recession, the amount of cargo available declined and because of deregulation, increased competition among carriers led to drastic rate cutting. The big U.S. carriers, noticing they had miscalculated by increasing cargo capacities, started to pull their large freighters off the market. Some international carriers dropped unprofitable routes. For example, U.S. carriers such as American Airlines and Eastern Airlines decided to carry more cargo in the belly of passenger aircraft and to mothball their all-cargo freighters—usually Boeing 747s. In Canada, British Airways stopped flying into Calgary when the market started to slide.

Internationally, the United States, the Pacific Rim and westbound traffic from Europe have remained strong cargo markets for carriers flying into Canada. This has resulted in firmer rates to these regions than for traffic to areas that are still recovering from the last recession or debt problems.

Shipping eastbound to Europe from Canada is a different story. Westbound, the planes are flying virtually full. Because of a stronger dollar and more robust recovery in North America, European imports are cheaper for Canadians and Americans. This creates greater demand for European goods, and therefore, for capacity on carriers flying the North Atlantic. The opposite is true for North American exports to Europe. They are more expensive than European-produce substitutes and there is less demand for them in Europe resulting in less demand for space on Europe-bound carriers.

Consequently, Canadian exporters have a better chance of receiving lower rates than Canadian firms importing from Europe. This trend should continue until the European economy recovers completely.

For exporters, one advantage is the availability of airline capacity. Carriers must establish capacity across the Atlantic to meet the demand coming out of Europe for North America. The airlines are then faced with the prospects of flying back empty. They will accept any cargo and offer lower rates to attract traffic.

The Pacific Rim, with some of the fastest growing economies in the world, was always good hunting ground for the carriers. These economies imported significant portions of their gross national product including high levels of raw materials. They also need the latest technology, goods that are well suited for shipment by air because they are "high price—low cube" products.

The United States, which takes most of Canada's exports, is somewhere between the two extremes.

The result also affected the structure of the industry. Rates were so low that for many airlines, freight was no longer profitable. Such carriers as American Airlines and United sold their freighters and put what little cargo they had in the belly of passenger aircraft. Excess capacity began to evaporate.

Currently, primarily because of less capacity and the healthy recovery in the United States, rates are beginning to rise again. The major carriers have not yet announced the return of large numbers of freighters as they are still concerned about the direction of the economy. Canadian carriers, shielded from deregulation, did not have to face the same problem of excess capacity. But they had to compete with U.S. carriers that were reducing rates. Likewise, they had to cut prices. With rates firming up in the United States, Canadian shippers can expect the same treatment for transborder traffic.

What's ahead for air cargo? Rates within Canada are likely to decline at first if the federal government deregulates the industry. There is intense competition from other modes—rail, trucking and marine—which themselves will be deregulated and become more price competitive. This will help to keep a lid on rates. But as happened in the United States, this could be temporary. When the market settles down and the economy fully recovers, the carriers that survive deregulation might start to raise rates again. Deregulation works only as long as you are making money. ◄

Canpar Delivers the Goods

The recent recession has taught everyone that inventories must be closely controlled. Companies can no longer afford to tie up large sums of money in warehouses or distribution centres. Consequently, they are buying and shipping in large lots only when volume discounts are so great that they more than compensate for holding costs and financing charges.

Shippers that traditionally rely on large shipments appear to be learning this lesson well. Trucking companies are reporting that after a steady increase in volumes since 1982, traffic is once again flat. Truckload and less-than-truckload shipments are suffering the most. These are the methods generally used for transporting general cargo.

The same is true for railways. Their balance sheets are much stronger since the recession ended. But revenue is coming from new areas. One of their fastest-growing departments is their piggyback service. It concentrates on small deliveries which have been consolidated by others who simply pay the railroad to move the containers from one city to another. Except for specialized cargo and certain commodities, such as wheat and natural resources, Canadian companies are shipping in smaller lots. But one carrier is making the most of this new trend.

CP Trucks, a division of Canadian Pacific Ltd. of Montreal, is generally optimistic about the trucking industry. But it is bullish about Canpar, its small parcel pick-up and delivery service. "People are looking at the bottom line,"says T.D. Goman, vice-president and general manager of Canpar of Toronto. "Small shipments are more urgent and shippers are turning to somebody like us with a more reliable service."

Late at night, parcels are sorted so they can continue their trip

Canpar does not disclose its revenue or profit figures. But Goman stated that, so far, volumes have increased 20 per cent over last year's figures. By the end of 1985 Canpar expects to handle in excess of 14 million parcels, an increase from the 11 million it handled in 1984. In Toronto alone, it is handling 20 per cent more packages since it opened a new handling centre there for Ontario, Quebec and Western Canada.

Why is Canpar doing better than the other divisions at CP Trucks? In 1984 traffic volumes for the division as a whole increased by 12 per cent over 1983 figures. But the volume for Canpar increased 25 per cent, or just over twice the level, according to Goman.

At one time a shipper could get a good discount only by shipping in large quantities. But Goman said that Canpar has changed that. With equipment and service tailored specifically for moving small parcels, Canpar's prices have eliminated the high minimum charges that all-purpose trucking firms generally charge. So rather than waiting a week or month to consolidate a shipment to save on the cost per-parcel, shippers can use Canpar's service to achieve similar per parcel shipping costs while also being able to send out orders the day they are received. This potentially bypasses the need for regional warehouses since the smaller shipments can go directly to the end users. This should be particularly pleasing for small shippers.

Similarly, the company had to build up its geographic network. "We will go anywhere there is a road,"says Goman. Canpar has tackled this problem on two fronts. First, it built a hub in Toronto that can sort 25,000 parcels an hour and it is extending its coverage to all of Canada. Goman said that Canpar can deliver to 92 per cent of Canada's population and is hoping to offer comprehensive Canadian coverage in the coming years. Then it would turn its attention to the United States, from which it currently receives just a trickle of traffic.

In 1984 Canpar completed its Toronto hub. It had started planning for this centre back in 1974. In 1979 it acquired a building from the Toronto Harbor Commission and it finished the first phase of development a year later. At that time, it was capable of handling 12,000 parcels an hour.

The second phase was completed last year. But the company is not currently operating near capacity levels. At peak periods this spring it handled 15,000 to 20,000 parcels per hour. Now, each night 30 to 40 trailers deposit their parcels for sorting. Within a couple of hours, the parcels are loaded on to distribution vans ready for delivery the following morning.

Apart from the Toronto centre, Canpar has 66 terminals in Canada and another sorting centre in Montreal. ◄

Truckers Face Rocky Road

By Cecil Foster

Canadian truckers didn't have much to smile about when they came away from the Canadian Trucking Association annual meeting this past June in Moncton, N.B. And it will be some time before they have anything to shout about. As they were meeting, the countdown was on for implementing the new Dangerous Goods Code on July 1, [See "Code Deadline Upset Industry", *Canadian Export World*, May 1985] deregulation was pending for the beginning of 1986, shipping rates were falling, the Canadian Transport Commission was recommending greater railway competition by suggesting that Canada's railways should be allowed to offer secret contracts, railways were announcing plans to further reduce trucking volume by extending their piggyback services to international traffic and, most important, trucking profits were continuing to fall.

Within the industry itself there are visible signs of hardships. General freight in both truckload and less-than-truckload shipments are down, resulting in some 50 per cent of the members of the Ontario Trucking Association reporting losses from operations for the first quarter of 1985. (Ontario has about 2/3 of the Canadian trucking industry and it is an indicator—as the Ontario industry performs, so goes the Canadian industry.) Some truckers admit privately that the number of them losing money might exceed the 50-per-cent figure cited by the OTA.

In fact, almost like desperate men grasping at straws, the truckers were hoping that they were about to get a reprieve, if only temporary. They had read carefully the agreement between the provincial Liberals and New Democratic Party in Ontario. Nowhere did it mention trucking or transportation. Obviously, they surmised, transportation reform was not a priority for the new Ontario government.

Raymond Cope, executive director of the OTA, is a bit hopeful as a result of the political changes in Ontario. "I hope they just ignore us" when it comes to introducing new legislation, he says. But no such luck. Premier David Peterson, in his first speech to the Legislature as a premier, announced plans to implement the now-dormant Spills Bill this November.

This would make carriers accept unlimited liability for environmental damages caused by hazardous materials they are carrying. Truckers claim that, so far, no insurance company has said it is willing to insure them under the bill. Already the truckers claim they had been hit hard this year by premium increases for general insurance, the federal Dangerous Goods Code will add to their costs, and that the Spills Bill will only aggravate the situation. And they will not be able to pass on the extra costs to shippers because of the weak market.

Deregulation survivors in the U.S. have found ways to reduce costs

At the Moncton meeting the keynote address was given by K.N. Wahl, chairman and chief executive officer of CP Trucks, a division of Canadian Pacific.

Wahl noted that survivors of deregulation in the United States "have found ways to significantly reduce their costs in all areas." In Canada, costs were rising, he noted. "Now the major issues of regulation have been largely resolved, it is time for the trucking industry to deal with the issues in government policy which affect motor carrier costs and profitability." They include:

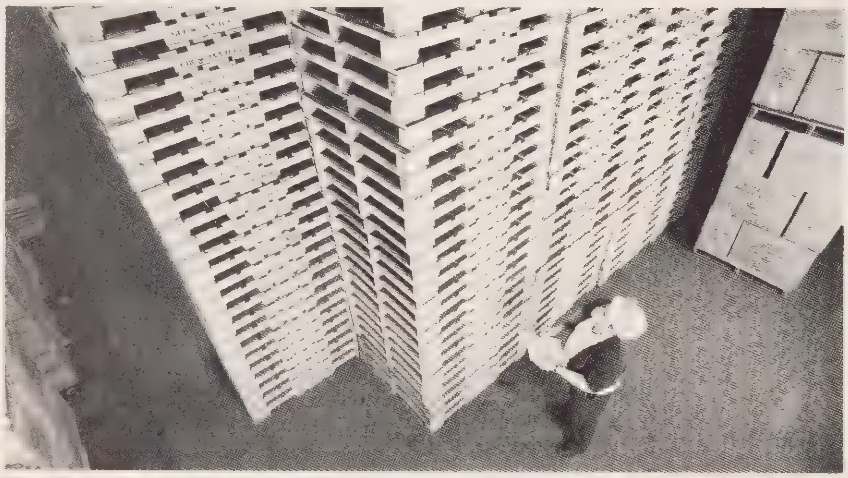
- *Vehicle capacity*—Canadian truck and trailers are not of uniform length. For example, in Quebec and some Western provinces, extended length trailers are allowed. They are not allowed in Ontario. Wahl said that the industry could reduce cost by 35 per cent to 45 per cent by using triple trailers or twin 45-foot trailers in place of the standard 27- or 28-foot trailer;
- *Fuel costs*—Wahl estimated that Canadian carriers pay at least seven cents a gallon more for fuel than their U.S. counterparts. He estimated that Canadian common carriers pay at least $25 million more annually.
- *Equipment costs*—Many of the truck and trailers used in Canada are imported from the United States and is therefore subject of customs duties.
- *Value-add tax*—Ottawa has proposed replacing the current federal sales tax with a value-added tax on the manufacturing process. Wahl estimated that a five-per-cent value-added tax on domestic road transportation would add more than $350 million annually to the cost of Canadian transportation.
- *Competition from Crown corporations*—Wahl pointed to Terra Transport in Newfoundland and CN Route, two divisions of the Crown corporation Canadian National of Montreal, which are in active competition with for-hire trucking companies. "CN Route and Terra Transport together operate at a combined loss in excess of $60 million annually. It is grossly unfair for governments to ask that motor carriers face the challenge of open and free competition and, at the same time, to continue massive subsidization of their trucking agencies."

The effect of these changes is leaving the industry dazed. Some marginal operations are selling out or merging with bigger and more profitable ones. The industry is becoming more concentrated. One thing is clear for shippers. The period of uncertainty in trucking should continue as for-hire carriers adapt to a new regulatory environment. Consequently, rates will remain low and shippers can choose the level of service required. There should be no sudden jumps in rates. ◄

Pallets Support Better Distribution

Few transportation managers give them a second thought. The wooden pallets used by lift trucks, storage racks, transport carriers and automated systems have helped to revolutionize distribution in warehouses and on the loading docks.

The pallet has removed most of the tedious bend-and-lift box-by-box movements for employees and helped distribution managers become more productive. And at a cost of $15 each, pallets can represent a sizable portion of a company's distribution cost.



The Canadian Pallet Council's warehouse, stacked to the rafters

But, according to Stuart Richardson, president of the Canadian Pallet Council (CPC), few people give the lowly pallet its due. "If grocery trade executives were asked to identify the single most important element of grocery distribution, few would name the wooden pallet. Yet this one single handling device makes possible the rapid and efficient flow of grocery and grocery-related products from the production line to the grocery shelf. Pallets cannot be ignored as a necessary evil-type of expense—they are too important and too expensive. There is no longer any excuse for poor pallet control and unknown 'black holes' in which pallets apparently disappear," he said.

But the usefulness of pallets is not restricted to the grocery sector. They can be used by any company that has to pack goods. This is being recognized more by company officials, and at least one company has found there is money in renting pallets to shippers.

This company, Chep Canada Ltd. of Toronto, is in competition with the CPC, whose pallets are owned by members of the council. Chep works on the premise that it is cheaper for companies to rent pallets, primarily in peak seasons, than to buy their own.

This way, it argues, the company will not be tying up valuable funds in pallet inventory. In addition, the company will not have to worry about replacements or the return of the pallets. Under Chep's system, a company rents a pallet and sends it to the buyer with the goods, and the buyer returns it to a depot or Chep will collect it at the end of the distribution line.

The CPC works the other way. It provides a pool of pallets for members who are responsible for the maintenance and care of the pallets. Each company must account for the pallets it receives and must exchange pallets of a stated quality. Currently, CPC members have about eight million pallets, worth more than $100 million. Last year the CPC purchased 510,000 pallets, for a 21-per-cent increase from the year earlier.

The CPC was born in 1977 out of a need to standardize the quality and size of pallets. Previously this job was being done with marginal success by the forerunner Grocery Products Manufacturers of Canada distribution committee. It estimates that about 80 per cent of the food products moved in Ontario and Quebec are handled on CPC pallets.

This is one area of weakness for the CPC. "We still have a way to go before we can feel completely comfortable," Quinn said. "There is a glaring opportunity facing us, and that is Western Canada. We know that we move only a small portion of our goods westward on pallets."

Richardson said the CPC is expanding into Western Canada, starting with an agent in Winnipeg who collects the pallets. "It is more cost effective for companies to use their own pallets than to rent someone else's," he said. In addition, the CPC is the only such grouping in North America that works, to the amazement of companies in the United States, he said.

The alternative to using pallets is what is known in the industry as slip sheets. These are corrugated pieces of cardboard handled by specialized lift-truck attachments for pulling and pushing. "Slip sheets have some advantages but some disadvantages," Richardson said in a recent paper. "Receivers are reluctant to embark on a program to handle slip sheets because of the expense in providing attachments to their lift trucks and developing the skill required to handle this equipment."

Ultimately, he said, most grocery products must go on a pallet or rack storage. Stores will find that their recovery operations are much more efficient when the product is received directly at their dock on a pallet. "Another important factor is that the unloading is the responsibility of the motor carrier, and receivers would be reluctant to allow drivers to use their specialized equipment to off load product on slip sheets," he said. ◄

Forging the Last Link

Canadian manufacturers have improved productivity, opened up dialogue with unions and are making better use of technology and human resources. All this should make Canadian goods more competitive in the international market, says Laurent Thibault, president of the Canadian Manufacturers' Association. The one thing that is needed to reinforce these gains is good, efficient transport.

"The last link in the long chain of successful marketing is the efficient distribution of our products, and this depends on efficient transportation," he said in a recent address to the Canadian Transportation Research Forum in Toronto. Thibault used the occasion to re-emphasize the shipper's viewpoint on transportation. And he placed these views within a peculiar framework: a need for change in the way Canadians do business and how they get their goods to market.

"Canada's manufacturing economy is under attack. The spread of modern technology to the less developed countries has added formidable new competitors in both domestic and foreign markets." Thibault said, adding that Canada cannot respond by simply tinkering with the system. "Nor should we resort to protectionist policies. Canada exports 30 per cent of its manufactured goods and is far too reliant on international trade to seek solutions in policies that restrict trade."

Canada produces about $200 billion worth of manufactured goods each year and more than half of these goods are sold outside the province of manufacture. Some $60 billion worth of these goods are sold to export markets. "For most manufacturers, distribution costs are the biggest cost factor after wage and materials. Add to that the fact that more than half the manufactured goods travel to distant markets and it is easy to see why Canadian manufacturers are concerned about the efficiency of the transportation network," he said.

The solutions to this problem are the same ones the CMA has been proposing for years. Less legislation in the business environment, greater flexibility in pricing and service and a new transportation framework "that will catch up to current global realities," he recommended. Since more than 70 per cent of Canadian exports are to the United States, "it is not surprising that the recent deregulation of that country's transportation industry has

thrown our pricing and market strategies into an entirely new sphere."

Thibault said that U.S. manufacturers and the transportation industry are adapting to the changes—and Canadians must do likewise. "I see deregulation in the United States as an opportunity to improve Canada's transportation system; a challenge to develop a transportation system that is truly competitive and responsive to market realities."

He suggested Canadians achieve this goal first by making the Canadian railway system more compatible with the U.S. system. "We want Canada's railways to be more competitive with the U.S. railroads." This means allowing confidential contracts on both domestic and international traffic and that the railways should not be allowed to see these contracts. Shippers also want increased intermodal competition among the railways and for the prohibition of collective ratemaking. "We do not believe the railways should be exempt from competition law."

Secondly, Thibault suggested changing the way manufacturers do business with trucking companies.

"Efficient distribution of our products is the last link in the long chain of successful marketing," says CMA president Laurent Thibault

For example, Thibault noted that each regulatory jurisdiction has its own priorities and, at times, they appear to be competing with one another "to see who can complicate life the most. Consequently, Canadian shippers are frequently left with a maze of regulations and a very limited choice of carriers, pricing and service." Here, too, the CMA is opposed to rate filing and ratemaking and to the current methods of publishing rate information. It wants to eliminate them. "It is time for the transportation systems of Canada to move into the state-of-the-art communication. Time to adopt modern electronic media to disseminate pricing and transport information. Today's publication methods are cumbersome, inefficient and make poor use of human resources.

The third suggestion made by Thibault was making Canada's ocean shipping industry respond to the need of its clients with service and prices that allow Canadian industries to be internationally competitive. The effects of U.S. deregulation on ocean carriers are still unclear. "Canada, with its dependence on international trade, is particularly vulnerable. We can no longer afford to shrug off cost increases in the expectation of passing these on to our customers," he said. ◄

News Briefs

Secret contracts may be allowed

As mentioned in the July issue of *Canadian Export World*, the Canadian Transport Commission has recommended to Transport Minister Donald Mazankowski that Canadian railways should be allowed to offer secret confidential contracts to shippers.

This issue was debated this spring after the CTC had orginally stated that such treatment should be given to international traffic. The railways and shippers had argued that this was needed to put Canadian and deregulated U.S. rail on the same footing. But the debate only raised another issue. Can you have a deregulated international regime and a regulated domestic one? CN Rail of Montreal and many shippers' spokesmen said no. CP Rail said why not—the current system was working quite well.

The CTC came down on the side of total deregulation. The following recommendations were made: Canadian shippers should be allowed to accept confidential contracts; the railways should not be allowed to compare these contracts; collective ratemaking should be disallowed where it conflicts with the new ruling; and a summary of contracts, minus the specific details, should be filed with the CTC. And perhaps most important, it suggested that the railways should be allowed to offer volume rebates to shippers. Mazankowski is expected to announce government's reaction soon.

Truckstop is here

A Toronto-based company says that it has a cheap computer-assisted distribution system that could help shippers save about 15 per cent in transportation costs. Micro Analytics Ltd. of Toronto recently introduced its TRUCKSTOP system in Canada, although some Canadian companies might have already bought the system from the U.S. parent.

According to Micro Analytics' press release, one New Brunswick dairy that bought the system from the United States last year cut the size of its fleet of trucks in half and reduced transportation costs by 20 per cent. TRUCKSTOPS is a microcomputer software system that develops routes and schedules that are most efficient for the user. Shorter routes and maximum use of vehicles could bring shippers savings of 15 per cent, it said.

The press release goes on to say that the system, which is used by more than 50 companies in the United States, is especially effective for distributors operating their own or leased fleets. Food distributors, dairies, oil and gas distributors and bottling companies are reducing dispatching time, meeting customer service schedules and reducing fleet costs.

The system uses information on customer locations, shipment quantities, vehicle capacities and delivery restrictions. It specifies which orders to load first and on which vehicles. It then prints out a route instruction for each driver.

Air cargo rises

Two foreign airlines that carry cargo to and from Canada have reported major increases in the amount of freight they are hauling. British Airways Cargo said that it has become the world's fastest-growing cargo airline among the major carriers. For the financial year ended March 31, BA made about $470 million (Can.) from carrying freight and mail. This amounts to a 15-per-cent increase in revenue from the previous year.

Japan Air Lines said that it carried 304,672 tons of international cargo in its freighters and in the belly of its passenger aircraft for the fiscal year which ended March 31. While tonnage increased by seven per cent from the previous year, revenues were up by 10.3 per cent over this period.

Cargo to the United States was strong in the first half of the year, especially in the second quarter, but because of increased competition and rate cutting on the transpacific, U.S.-bound cargo declined in the second half.

JAL also felt that it is continuing to suffer "from continual denial of access by freighter aircraft to Chicago, a prime cargo distribution point currently served on Japan-U.S. routes by U.S. cargo carriers only."

For BA, business was strong all around the world but American and Far Eastern routes were the best ones. In all, it moved 220,000 tonnes of freight and 40,000 tonnes of cargo. This made BA the sixth-largest world cargo carrier, the biggest one without freighters, and the fastest-growing among major airlines.

Patent Fees Soar

Effective July 1, the cost of obtaining a trademark was raised to $350 from $150 and that of a patent doubled to $1,000 from $500. The Patent and Trademark Institute of Canada argues that the new cost structure is higher in Canada than anywhere else in the world even though the protection covers only a small market. Government officials respond by stating that since there is no system of renewal fees, the first payment, in effect, gives 17 years of patent protection. In West Germany, for example, inventors pay up $10,000 for such protection and in the United States, the cost is $4,000.

BidNet Reaches Canada

A data service that will enable Canadian exporters to tap into the multibillion-dollar U.S. government procurement market has recently been extended to 36 Nova Scotia firms under a one-year trial sponsored by that province's department of development and external affairs.

The service provided by BidNet Inc. of Bethesda, Md., offers subscribers immediate information of special interest to them on bids issued by the U.S. public procurement sector. Last year that sector spent $588 billion. Under BidNet, subscribers receive by computer, Telex and other rapid delivery services only those bid requests aimed at their market niches. If a firm is interested, it notifies BidNet and receives a complete bid package. After that, it is up to the supplier and the buyer to complete a deal. Besides the speed of the service, BidNet also informs firms of contracts which it might otherwise miss.

For more information on the project, call Doug Patterson at External Affairs' U.S. Trade and Development Bureau (613) 993-5911. ◄

New Conference Offers Old Rates

There is nothing more shocking to your credibility than to be proven dead wrong. This may have happened to the Canadian Shippers' Council.

Remember. It was the end of March and the federal government had just announced that it was extending for one year the Shipping Conferences Exemption Act (SCEA). "Wait a minute," the shippers' spokesmen said with almost one voice. "What about this new shipping conference that is starting up on the Pacific?" [See "New Conference Sets Sail", *Canadian Export World* May 1985].

Well, according to the shippers, this new conference was a clear example of what the government should try to eliminate. It was called the Trans-Pacific Westbound Rate Agreement and it was simply a monopoly of shipping services between Canada, the Far East, Japan and Korea. The conference had applied for exemption from anticombines laws as offered by the SCEA. The spokesmen believed this was the first step to a hike in rates on the Pacific.

With the government apparently signalling that it was not yet ready to intervene to prevent collusion, the shippers were predicting dire consequences. But it did not turn out that way. Or, at least, not the way the shippers had predicted. What the spokesmen did not take into account was the effect of overcapacity, or oversupply of ships, on the routes. So instead of hitting the shippers with an immediate rate increase, the conference members were forced at a June meeting to suspend any thoughts of immediately jacking up prices.

A press release issued from the Transpacific Westbound Rate Agreement's headquarters told it all: "In view of continued severe market conditions in the westbound trade between North America and Asia, [TWRA has] suspended until Nov. 1 minimum per-container charges on eight specific commodities, and postpones the implementation of previously announced increases in minimum charges for all other dry commodities. "Effective June 10, the eight commodities—lumber, wood, pulp, kraft linerboard, scrap metal, raw cotton, waste paper, hay cubes and hides—will not be subject to any minimum charges until Nov. 1."

What does this mean for Canadian exporters? In the first place, those who felt that TWRA would have driven them out of business by raising rates so high that they could not compete in the Asian market, need not be so concerned at this moment. Secondly, shippers should be able to dictate operations in the market for some time. As long as there is an oversupply of ships, or not enough shippers requiring them, there is little likelihood of major rate increases sticking.

And what does this mean for the shippers' spokesmen? While they were proven wrong (rates did not go up), at least they helped focus attention on TWRA which caused many shippers to start looking for alternatives. Spokesmen need not be too concerned that prices did not increase as predicted. After all, the TWRA officials were just as wrong, and they were the ones with all the charts and data— information that the shippers are still claiming the conferences are withholding from them and will continue to do so under the SCEA. ◄

Washington Diary

New Trade Chief

Clayton Yeutter, the new trade chief for the Reagan administration, assured U.S. senators at his confirmation hearings June 25 that he will pursue a tough domestic trade policy and take steps to open foreign markets to U.S. goods.

Yeutter, nominated to replace William Brock as U.S. special trade representative, also said he believes that the United States should hold trade negotiations with foreign countries on a continuing basis rather than on the basis of periodical trade rounds provided through the Geneva-based General Agreement on Tariffs and Trade. "Trade problems do not stop and start every five years," he said.

The hearings covered a wide range of issues. On Canadian items, specifically, he pledged to "keep up the pressure" for curbs on Canadian softwood lumber imports that are being sought in a variety of bills introduced recently in Congress. Yeutter pressed Canadian Trade Minister James Kelleher on the issue the previous week. Curbs were rejected by Kelleher and by B.C. Premier Bill Bennett, both of whom made the rounds of Congress and administration officials to quell the protectionist sentiment.

Yeutter suggested at the Senate hearing that it will be difficult for Canada and the United States to launch sweeping, freer trade talks "if we have some very sensitive individual issues like this that are out of sorts."

Senators Cite Suspect Practices

The 13-member Senate Democratic Working Group on Trade Policy invoked a rarely used section of the U.S. Trade Act July 2 to request investigations by countries and the European Economic Community.

In the Canadian case, they singled out the telecommunications industry for inquiry, suggesting that Canadian firms do not give U.S. equipment manufacturers the same market access that Canadian manufacturers get in the United States.

They specifically singled out Bell Canada's purchases of equipment from Northern Telecom Ltd. of Mississauga, Ont., as an example of what they think is an unfair arrangement. The 16 questions they asked Yeutter to investigate range from ownership and income and purchasing practices of Canadian telecommunications companies to government tariffs on imported equipment.

Fish and Berries Are Dumped On

A rash of final rulings by the U.S. International Trade Commission in June went against Canadian industry's favour. The commission voted to impose antidumping duties on Canadian dried and salted codfish, worth more than $20 million last year, and on Canadian raspberries, worth more than $6 million last year.

The commission also recommended that President Reagan impose a global quota on footwear imports. While the move is aimed at major suppliers such as Taiwan, Canada's tiny share of the U.S. market is covered as well. The share was worth about $33.5 million last year. The quota would be sold in a licence-bidding process.

Meantime, support in Congress has been gathering for a textile quota bill despite opposition from five members of the Reagan cabinet. But Canada is specifically excluded from the bill.

But Canada's exclusion from a steel import relief program announced last November has been opened to question. A firm signal of that was contained in a written message from President Reagan to the American Iron and Steel Institute. He said that imports from Canada are "well above traditional levels" and pledged continued commitment "to full implementation of my program to provide our industry the opportunity to compete on a level playing field." ◄

Paper Blizzard Is No Snow Job

The recent flurry of federal studies outlines the government's various trade options. Before it decides, however, it wants private sector input

By Solomon Sarpkaya

The paper "A New Direction for Canada—An Agenda for Economic Renewal", presented to the House of Commons by the minister of finance on Nov. 8, 1984, said that one of the elements of the government's mandate for change in Canada is to consult, not "as an excuse to postpone making decisions," but rather to "forge a better understanding with the private sector and the provinces."

The consultative process continues. The government has tabled in the House four consultation papers related to Canada's international trade so far, on which the views of interested parties are sought.

1. The *Discussion Paper on Securing and Enhancing Canadian Access to Export Markets* sets out four possible options for Canada-U.S. trade relations:

- continue as we have in the past;
- Canada and the United States could initiate negotiations toward either sectoral or nontariff arrangements;
- Canada and the United States could initiate negotiations aimed at achieving a comprehensive bilateral trade arrangement;
- or, the two countries could establish a framework agreement.

2. The *Export Financing Consultation Paper*, while saying that the government's export financing facilities "generally ensure that Canadian exporters are not at a disadvantage with respect to financing," presents a number of options for consultations:

- possible improvements in the Export Development Corporation's (EDC) responsiveness, coverage and other services, particularly for small- and medium-sized businesses;
- whether Canada's aid program should be used to a greater extent or in a different way to provide concessional financing for Canadian exports to developing countries;
- options under which private financial institutions might play a greater role in export financing and insurance, and what modifications in the mandate of EDC might be needed to facilitate a private-sector role in this area;
- reviewing the role of the Canadian Commercial Corporation in light of the need to facilitate participation by the private sector—in particular by trading houses—in support of Canadian exports, and
- need for ensuring co-ordination between federal and provincial programs of export financing support.

3. *Promoting Canadian Exports: The Trading House Option* assesses the importance of the trading house sector in Canada, evaluates its potential for developing Canadian exports and suggests measures that would enhance trading house performance in exporting Canadian goods and related services with specific reference to manufactured goods.

The report contains 32 recommendations on the following: trading houses, the Export Development Corp., the Canadian Commercial Corp., the department of regional industrial expansion, the department of external affairs's program for export market development, countertrade, the Canadian International Development Agency and banking legislation. Its principal conclusion is that "in Canada there is an active and substantial existing trading house community. It represents a credible and cost-effective option for Canadian producers and manufacturers seeking to enter export markets or to expand their coverage of world markets. The sector needs greater public visibility and more equitable treatment by government export promotion agencies and the financial institutions. If these requirements are met, trading houses can be expected to play a progressively more important role in Canada's export mosaic."

4. The discussion paper entitled *Competitiveness and Security: Directions for Canada's International Relations* takes a broader view of the future directions of Canada's international relations. It gives particular attention to questions relating to Canada's international economic competitiveness and to the security implications of recent developments in East/West relations and arms control.

The section on Canada's international economic relations looks at Canada-U.S. trade, strengthening the multilateral economic system, the search for competitiveness, investment and exports, and official development assistance. Here is what the discussion paper says on each of the following issues.

First, regarding trade the paper says: Policymakers "will need to be satisfied that if Canada-U.S. trade were liberalized further, the benefits would outweigh the costs.

While the paper says that the "government is seeking the views of all interested Canadians on this issue," it also notes that "decisions may need to be taken before the parliamentary re-

view is completed."

Second, the paper comments on strengthening the multilateral economic system.

Again, while the paper states that "domestic consultations are under way to define Canadian interests so that we can, in turn, help to establish the negotiating agenda," it also says in a footnote that "decisions on the MTN (Multilateral Trade Negotiations) may also have to be taken before the Parliamentary review is complete."

The third main issue discussed in the paper is competitiveness, investment and exports. The paper emphasizes that improved competitiveness can enhance Canada's economic prospects significantly, and investment, particularly in science and technology, is essential to achieving this competitiveness.

The fourth and final discussion area to be examined here is development assistance. The paper identifies two sets of operations in this respect: the role of Canadian official development assistance in Canadian foreign policy, and priorities within the aid program. Again, the paper asks: "How can the government assist Canadians best to help others? How much of the government's effort should be channeled through these Canadian nongovernmental organizations? What changes would improve our program delivery?

Like Canada, many other countries also are now considering their options in their economic relations—the options ranging from "eye for an eye" to "open door" policies. Either way,—or in any way for that matter—both exporters and importers have a great stake in reshaping Canada's new directions in trade relations. ◄

SERVICE ANNOUNCEMENTS

Moscow *continued from page 9*
cratic decisionmaking—and bags of patience!

During your initial stage of market development, work closely with both provincial and federal representatives, preferably those in Moscow who have their finger on the pulse of economic activity. This signals to your Soviet customer that, like themselves, you have government approval in pursuing business opportunities. Time permits the development of a personal relationship, a factor easily underestimated in the Soviet market. As in any bureaucracy, decisionmaking tends to be characterized by inertia. No change means no errors and no errors means that promotion expectations remain intact. In both capitalist and socialist economies, bureaucrats respond similarly to this incentive. Firms already successful in managing their relations with governments are more likely to have realistic expectations as to the pace of, and profits from, business development. They are also more likely to possess those atypical selling skills necessary to land contracts in the Soviet Union.

Canadian marketing disappointments include our bids to supply a potash processing plant at Berezniki in the eastern Ural Mountains (ultimately awarded to a West German supplier), and to obtain a major contract in the development of the Astrakhan sour-gas field near the Caspian Sea. Besides an unwillingness by some suppliers to shave prices on their components at the eleventh hour, there is little doubt that these bids were rendered uncompetitive because of inadequate financing arrangements. We lacked the institutional arrangements which would have permitted the kind of concessionary financing, or blending of finance and product costing that would have made them competitive. To compete on such projects there must be closer links between project contractors, our national banks and federal funding agencies which involve some form of support that can be justified by other economic objectives. That's how our international competitors structure their proposals.

The level of activity eventually becomes highly predictable, stable if unspectacular. Growth and development is unlikely to be exponential, as may be experienced in Pacific Rim or U.S. regional markets. On the downside, there are unavoidable sensations from time to time—that the business development investment is reaping few returns, growth appears nonexistent, the environment is inhospitable for "closers" and that the byzantine decisionmaking process turns the awarding of contracts into a lottery. But recall that it is a command-driven purchase not a demand-pulled one. Is your product part of the current plan? Yes? Then you are competing in a real, though imperfect market.

Canada enjoys considerable goodwill in the Soviet Union as a reliable supplier of a critical commodity of high quality—grain. This is an entrée to expanding and deepening the range of commodities and the volume of our exports to that market. It is in our self-interest to consider opportunities for expanding our imports from that market; the chronic imbalance in bilateral trade each year is itself a structural barrier to expanding our exports. Attempts to buy more Soviet products would express concretely our desire to boost the mutual expansion of bilateral trade. The Soviet Union has a wide range of products that we need.

Among Canadian governments, Alberta is notable for its support of exporters (and importers) in that province since both areas share a similar climate and an energy- and agriculture-based economy. Alberta corporations have learned to support elaborate official trade structures (important to a bureaucratically-oriented Soviet trade administration) by joining trade delegations, participating in technical working groups and mixed commission meetings. By visible involvement in protocol signings, and in the conduct of trade negotiations at the official level, these firms become identified with bilateral efforts to strengthen the trading interests of both countries. By their participation they tie their companies systematically to the trade flow and consolidate their market share. This might be an unaccustomed role for Canadian senior management. But it may become a necessary one because of our dependence on international trade, the tendency toward regulation and greater governmental participation as the competition for global markets heats up.◄

Richard daCosta was a Canadian trade commissioner in Moscow from 1980 to 1982. He is now an assistant professor in the School of Business and Economics at Wilfred Laurier University in Waterloo, Ont.

Bid *continued from page 16*
through the United Nations Development Program (UNDP). Because the UN is primarily involved with human resource development and technical assistance, the projects it tenders are usually small. The UN has a five-year plan by country that identifies projects it wishes to pursue. This is a general document and does not specify firm projects but it is an indicator. Planning officers help companies find out what projects are coming up, general policy planning in a country and information on their competition in a given country. Other UN agencies such as the Food and Agriculture Organization or the World Health Organization—about 25 in all—are the executing agencies for (UNDP).

"Companies must register not for all of the things you can do but only for the things you do well," stresses Rick Mann, a trade commissioner at Canada's permanent UN mission in New York. Because the projects require very specialized goods very fast, selling through (UNDP) requires classic marketing strategy—a good product at the right price. So bidding on tenders is more than ever a matter of making yourself known in the proper agency.

The Canadian Commercial Corporation (CCC) is another useful intermediary for the small firm about to enter the international bidding arena. It provides the contracting role. The corporation will register a company on the appropriate bidders list; obtain international invitations to bid; contact firms for sourcing, via the federal department of supplies and services; prepare and submit offers to the UN and offer a back-to-back contract. All the company has to do is ensure it is on the CCC's source list.

Though the development banks are responsible for a small percentage of total Canadian exports—in 1983 such procurement represented less than 1/5 of one per cent of Canadian export trade—it is still an important and attractive market. If a job is well done, the chance for repeat business is high. But a company must be firmly committed to a region if it wants to have any hope of getting information early enough to be competitive. The federal government and the banks themselves offer all sorts of assistance for the company that seeks it out. And since Canada is a member of these banks, Canadians have the opportunity of using them as a route into the world of international bidding.◄

Guest Forum

Pacific Rim Trade Beckons

By Barbara Johnson

The rapid growth of the Pacific Rim economies in recent years is commonly seen as a threat to Canadian competitiveness by Eastern Canada. In the West, the opportunities arising from the dynamic expansion of the Pacific Rim are more widely understood and emphasized. As a country we need to understand both the threat and the opportunity. With this recognition, we can go on to determine the package of adjustment and trade strategies needed to respond to the Pacific Rim challenge.

In recent years Canada has had a declining trade surplus with this part of the world. For nine of the leading East Asian countries, including Japan, Hong Kong, Taiwan and South Korea, our overall trade surplus has declined to 8.5 per cent in 1983 from 13 per cent of the level of trade in 1977. This percentage will undoubtedly be lower for 1984. The impact of this change is heightened by the fact that it has taken place over a period in which these countries' export mixes included a growing number of prestigious, advanced technology products, while Canada has been experiencing high levels of unemployment, slow productivity and economic growth, and stagnating demand for resource products. These factors, in conjunction with Canada's declining share of world trade, give the impression that Canada is lagging in terms of international competitiveness and export performance.

The impression is misleading—our overall export performance and competitive position remain quite healthy. Being internationally competitive means having a high level of productivity, and in this Canada scores well. In terms of labor inputs, producers in our East Asian trading partners, such as South Korea, Hong Kong, or even Japan, are generally less efficient than Canadians although they are clearly becoming more efficient.

Although Canada runs a trade surplus with many Pacific Rim countries, our performance suffers by comparison because of the rapid growth of our Pacific Rim trading partners. These countries have had and still have low levels of per-capita output and relatively inefficient economies. But their per-capita GNPs have been growing rapidly Accordingly, they are increasing their output of goods which they have not previously exported in significant amounts. The effect of this change is increased competition, not only in clothing and textiles but also electronics products, steel and autos—as South Korea has demonstrated.

The other reason Canada's trade performance appears to have lagged relative to East Asia is the high value of the Canadian dollar relative to currencies other than the U.S. dollar. Thus, while we anticipate continued strong exports to the United States we can expect increasing imports, especially standardized manufacturing goods, from the Pacific Rim.

Export trade increases Canada's standard of living and is essential to the health of the Canadian economy. In promoting our exports, particularly in the Pacific, we must not forget that trade is a two-way street. The advancement of our sales abroad requires that we allow other countries to export to Canada. Blocking the export of textiles and clothing, shoes, and autos has a negative impact on Canada's ability to sell abroad by reducing the foreign exchange developing countries need to finance purchases of Canadian products.

The most effective counter to growing protectionism around the world is a strong move by all interested governments toward a new round of multilateral trade negotiations. With respect to Canada's Pacific Rim trade, this is especially important since support for the GATT and the multilateral trading system is increasingly the foundation for stable trade and economic relations in this geographic region. The Multifibre Arrangement, the mechanism for regulating textile and clothing trade, should be placed fully under GATT control.

Our bilateral relations are important too. Japan is Canada's major trading partner in the Pacific region. The significance of the Canada-Japan relationship needs to be fully recognized. Out of concern for this relationship, British Columbia has from time to time opposed moves by Ottawa that appeared not to recognize its importance. A case in point has been the federal government policy of restricting auto imports from Japan. These restrictions have been inappropriate for some time and should be removed.

Exporting to the Pacific Rim is particularly important for British Columbia. Roughly half of Canada's exports to the Pacific Rim originate in this province. Export development initiatives must be developed in close consultation with the private sector, with effective federal-provincial co-operation.

Currently, federal representation in the Pacific is much lower than our presence in the United States and Western Europe. British Columbia has been pressing Ottawa to increase its commercial representation in the Pacific. An active secondment program of commercial officers between the provinces and the federal government, and between the private sector and both levels of government, would be helpful. While British Columbia is reluctant to establish new provincial offices abroad, in certain key markets there is a need for provincial commercial representation. Thus, British Columbia has proposed that in these markets Ottawa provide accommodation within the Canadian Embassy or the Consulate for a B.C. commercial representative. B.C. has argued that this strategy will be more "Canadian," more effective, and less expensive than individual provincial offices.

Such initiatives can play a positive role in increasing exports to the Pacific Rim and diversifying the mix of these exports to this part of the world. Overall, the growth of the Pacific Rim economies is a challenge for Canada, both in terms of absorbing imports and responding to the demand in these growing markets for Canadian products. By co-operating to develop adjustment policies and export programs and by supporting our international agreements, this challenge can be met. ◄

The above article is condensed from a speech given by Dr. Barbara Johnson, then-director of trade policy branch, B.C. ministry of international trade and investment. Remarks were made at the conference board's international business conference, "Co-operation in a Competitive World" (Feb. 7, 1985) in Toronto and do not necessarily reflect the views of the B.C. government.

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CANADA AND THE WORLD: COMPETING FOR INTERNATIONAL MARKETS

Government of Canada

CANADA AND THE WORLD: COMPETING FOR INTERNATIONAL MARKETS

Introduction:

Canada is a major trading nation and international trade is crucial to Canadian income and employment. Growth in our exports means more economic activity in Canada and more jobs for Canadians.

Three basic conditions of success for us in the world economy are competitiveness, access to foreign markets and effective export marketing. Each of these conditions is necessary and they are related. Effective marketing requires a competitive product and secure access.

This brief presentation highlights the importance of international trade to Canada, indicates grounds for concern about Canadian competitiveness, and sets out challenges for the future.

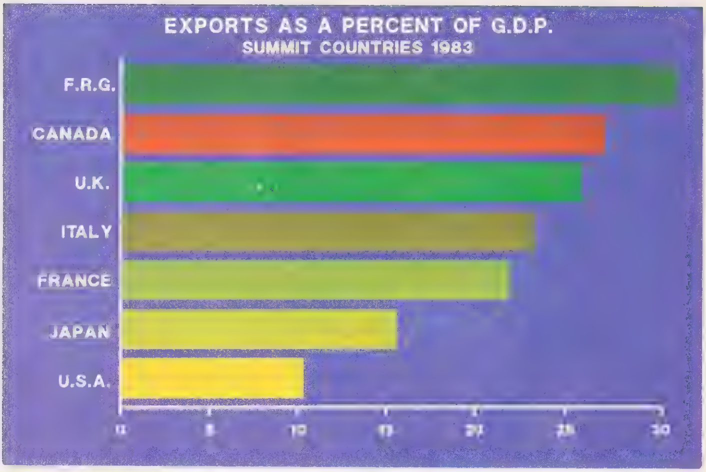


Figure 1:

Of the seven countries which participate in the annual Economic Summit meetings, Canada is the second most dependent on exports (28 percent of Gross Domestic Product), exceeded only by the Federal Republic of Germany at 32 percent. In contrast, our two main trading partners, the USA and Japan, depend considerably less on exports. Their domestic markets are much larger than ours and absorb a much greater proportion of their production. In 1984, we exported over $4,000 per Canadian.

Figure 2:

In 1983, the USA accounted for 72.9 percent of Canada's exports. The figure for 1984 is even higher. Canada's next largest export market was Japan at 5.2 percent. This highlights the importance of secure access to the USA market as an essential condition of our economic well-being. Virtually the whole range of Canadian production and all regions of Canada are involved in exports to the USA. Many see success in the USA as a prerequisite to success in other world markets.

Figure 3:

Since the end of World War II the distinct long term trend has been that the USA has been taking a larger and larger share of Canadian exports — from around 50 percent in the late 1940's to more than 70 percent now. In the early part of this period, Western Europe in particular accounted for a much larger share of our exports than it now does.

Figure 4:

Exports are vital to Canadian jobs. Canada's share of world merchandise exports was 4.5 percent in 1970. It was 4.0 percent in 1983. Had we achieved a 4.5 percent share in 1983, an increase of one half of one percent, we would have employed about 160,000 more Canadians. The Economic Council of Canada projects that in 1990 our share of world exports will be 3.8 percent. The same forecast has unemployment at 9.8 percent. An increase of our share of world merchandise exports back to 4.5 percent by 1990 could lower unemployment to 7.3 percent. Between now and 1990, every $1 billion increase of merchandise exports should generate about 16,000 new jobs. While no one can accurately predict the job impact of an increased share of world markets, there is no doubt that it would be significant and positive.

Figure 5:

Our exports have become more diversified, with manufactured products accounting for an increasing share of the total. In this context the performance of manufactured exports in market economies is a useful indicator of economic dynamism and competitiveness. Canada's share of manufactured exports to world market economies declined from 4.8 percent in 1970 to 3.6 percent in 1982. The six largest countries of the European Community (Belgium, France, FRG, Italy, Netherlands, UK) also showed a decline. In comparison, the USA share of world manufactured exports barely changed, while those of Japan and the rest of the world increased. While these comparative shifts may look small when measured in percentage points, they are in fact substantial because world trade is very large and growing.

Figure 6:

This figure compares world and Canadian export growth in different sectors. Of the seven categories, world trade grew the fastest in machinery and metal manufactures. This is a very large category, encompassing about half of world manufactured exports. Canadian exports grew by less than world exports in this category. The same is true in the second fastest growing category, chemicals. The figure suggests that Canadian trade is lagging in some of the more dynamic areas. This is a broad generalization which hides the fact that Canadian exporters of particular manufactured items in all categories have been highly successful on international markets. Viewed in this perspective, the real question is how to extend our successes in the large, dynamic market categories.

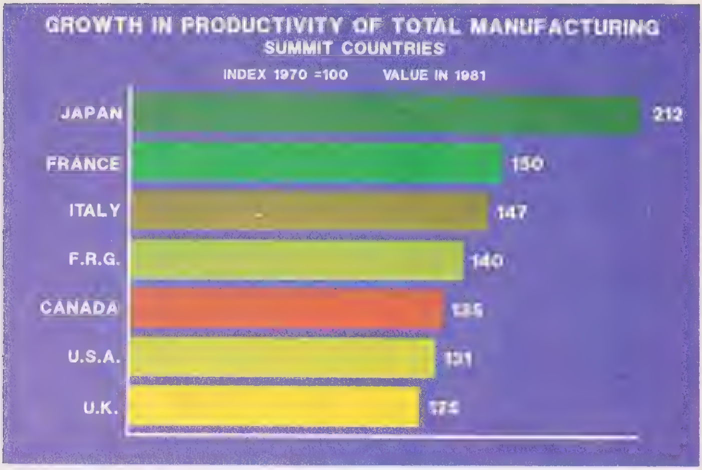


Figure 7:

One of the reasons for Japan's strength on world export markets is its remarkable growth in manufacturing productivity. Relative to an index of 100 in 1970, Japan had reached 212 and Canada 135 by 1981. This placed us fifth among the Summit seven in productivity growth, only marginally ahead of the USA and the UK. While Canada's absolute level of productivity, historically, has been quite high, the trend shown here for productivity growth in manufacturing is cause for concern.

Figure 8:

This figure shows the level of productivity by measuring manufacturing output per unit of wage labour. From 1960 to 1983, Canada's level of productivity remained below, and grew almost in parallel with, that of the USA. The gap between Canadian and American productivity did not change significantly during this period. The effects of Japan's productivity growth, highlighted in the previous Figure, are shown here as Japan came from well behind Canada in 1960 to pass us around 1980.

Figure 9:

As we look to future opportunities for growth in our exports we must focus on both large and dynamic markets. The "Wharton Economic Outlook" of December 1984 forecasts that World GDP will grow at 3 percent per year between 1985 and 1989. The Pacific Rim developing countries are expected to have the highest growth rates at 5.6 percent. Next is Japan at 3.8 percent, followed by the total for all developing countries at 3.7 percent. The USA is forecast to exceed world growth by a small margin while the European Community is expected to lag behind. The Pacific Rim is Canada's fastest growing market and the forecast suggests that this may continue to be the case for some time.

Conclusion:

Canada is a comparatively wealthy country. We have a well educated population, abundant resources, diversified productive activities and an extensive infrastructure of communications and other services.

However, there is growing evidence that other countries are either catching-up with or surpassing us on world markets, affecting our ability to maintain a strong international position essential to job creation and our continued well-being. We have noted our slipping share of world trade and our low growth of manufacturing productivity.

In addition to what we already do well, we must look at the more dynamic industrial sectors and the more dynamic markets abroad for new opportunities for Canada. To be successful in competitive international markets we will have to improve productivity.

Productivity gains can come from

- removing obstacles to growth
- investment
- training of our people
- research and development
- acquisition of technology
- adjustment
- more effective management and production systems.

Improved competitiveness, combined with secure and enhanced access to our key markets and even more effective export marketing can improve our economic prospects significantly in the years ahead and help to provide more jobs for Canadians.

Competing for International Markets

Sources and Methods

Figure 1:

Source: OECD, Department of Economics and Statistics; Quarterly National Accounts #1, 1984.

Figure 2 and 3:

Source: CANSIM Balance of Payments Accounts.

Figure 4:

The $63,600 exports per job and 7.3% unemployment figure are derived from a CANDIDE model run commissioned to determine the incremental effects on employment and real export volume of increasing Canada's share of world exports from 3.8% to 4.5% for 1990.

Figure 5:

Source: University of Maryland INFORUM data, which is U.N. World Trade data for world market economies deflated according to methods described in the INFORUM technical paper to the New York Stock Exchange Study of 1984.

Figure 6:

The source of this data is the same as figure 5. The sectoral composition corresponds to the OECD aggregation for manufacturing industries.

Figure 7:

The sources are OECD National Accounts and Labour force statistics Tables 2b and V respectively for Canada and the USA, and the OECD draft Productivity Study, July 21, 1984, DSTI 84.12 Rev 1, Table 1 for the other countries.

Figure 8:

Source: Daly, D.J., & MacCharles, D.C. "Canadian Manufactured Exports: Constraints and Opportunities" York University, Mimeo, 1984.

Figure 9:

Source: "Wharton Economic Outlook" December 1984.

NOTES

NOTES

Illustration 6:

La source de ces données est la même que pour l'illustration 5. La composition sectorielle correspond aux données regroupées de l'OCDE sur les industries manufacturières.

Illustration 7:

Les données sont tirées des Comptes nationaux (tableau 2b) et des Statistiques de la population active (tableau V) de l'OCDE pour le Canada et les États-Unis, et du projet d'étude de l'OCDE du 21 juillet 1984 sur la productivité (Tableau 1 DSTI/84.12 Rev 1) pour les autres pays.

Illustration 8:

Source: Daly, D.J., & MacCharles, D.C. "Canadian Manufactured Exports: Constraints and Opportunities", York University, document miméographié, 1984.

Illustration 9:

Source: "Wharton Economic Outlook", décembre 1984.

La concurrence pour les marchés extérieurs

Sources et méthodes

Illustration 1:

Source: OCDE, Département d'économique et de statistique; Bulletin des comptes nationaux trimestriels n° 1, 1984.

Illustration 2 et 3:

Source: Comptes de la balance des paiements — CANSIM.

Illustration 4:

Les 63 600 $ d'exportations par emploi et les 7,3 % de chômage sont tirés d'une simulation sur le modèle CANDIDE que nous avons commandée pour déterminer les effets d'accroissement de l'emploi et du volume réel des exportations qui se produiraient si le Canada faisait passer de 3,8 à 4,5 % sa part des exportations mondiales d'ici 1990.

Illustration 5:

Source: Les données INFORUM de l'université du Maryland, qui sont les données de l'ONU sur le commerce mondial des économies de marché ajustées selon les méthodes décrites dans le document technique d'INFORUM préparé pour l'Étude 1984 de la Bourse de New York.

Conclusion:

Le Canada est un pays relativement riche. Il peut compter sur une population hautement scolarisée, des ressources naturelles abondantes, des activités de production bien diversifiées, et une vaste infrastructure de communications et de services.

Il semble de plus en plus évident toutefois que d'autres pays sont en voie de nous rattraper ou de nous dépasser sur les marchés extérieurs, ce qui entrave sérieusement notre capacité de maintenir cette solide position internationale si essentielle à notre prospérité et à notre croissance. Nous avons souligné à cet égard la diminution de notre part du commerce mondial et la faible croissance de notre productivité manufacturière.

Outre les secteurs où nous connaissons déjà le succès, nous devons nous tourner vers les secteurs industriels les plus dynamiques et vers les marchés extérieurs les plus expansifs pour trouver de nouveaux débouchés. Pour affronter avec succès la concurrence internationale, nous devons améliorer notre productivité.

Les gains de productivité peuvent venir:

— de l'élimination des obstacles à la croissance

— de l'investissement

— de la formation de nos gens

— de la recherche et du développement

— de l'acquisition de technologies

— de l'ajustement structurel

— de systèmes de gestion et de production plus efficaces

L'amélioration de notre compétitivité, conjugée au maintien et au renforcement de l'accès à nos principaux marchés ainsi qu'à une commercialisation encore plus efficace de nos exportations, nous permettra d'améliorer sensiblement nos perspectives économiques dans les années à venir.

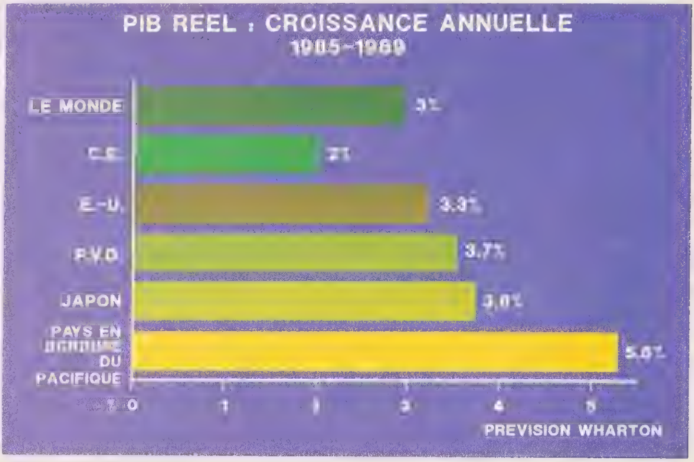


Illustration 9:

Dans la recherche de moyens d'accroître nos exportations, nous devons nous concentrer sur les marchés à la fois importants et en pleine expansion. Selon le "Wharton Economic Outlook" de décembre 1984, le PIB mondial s'accroîtra de 3 pour cent par année entre 1985 et 1989. Les pays en développement riverains du Pacifique devraient connaître les plus forts taux de croissance (5,6 pour cent). Viennent ensuite le Japon avec 3,8 pour cent, puis l'ensemble des pays en développement avec 3,7 pour cent. On prévoit que les États-Unis dépasseront légèrement le taux de croissance mondial et que la Communauté européenne restera en-deça de ce taux. Les pays de la région du Pacifique sont donc notre marché le plus dynamique, et selon les prévisions il pourrait en être de même pour un certain temps.

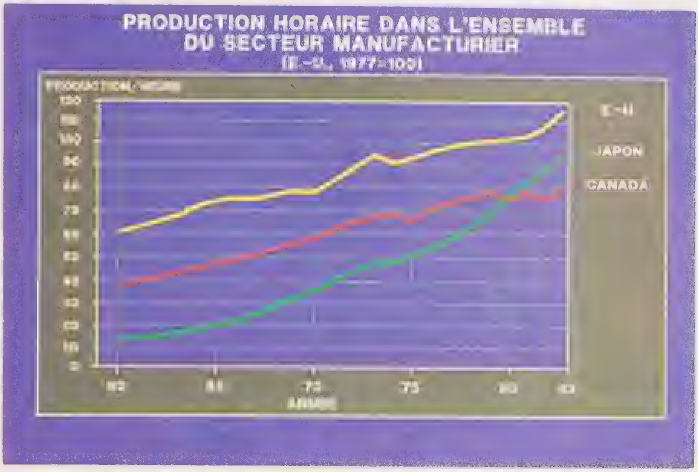


Illustration 8:

Ce graphique illustre le niveau de productivité en mesurant la production manufacturière par unité de main-d'œuvre salariée. Entre 1960 et 1983, le niveau de notre productivité est constamment resté en-deça de celui des États-Unis, évoluant presque parallèlement à ce dernier. L'écart entre les deux taux ne s'est pas sensiblement modifié pendant cette période. Les bienfaits de la croissance de la productivité japonaise soulignés à l'illustration précédente sont ici fort apparents: le Japon, qui venait loin derrière le Canada en 1960, nous avait rejoint et distancé à partir de 1980.

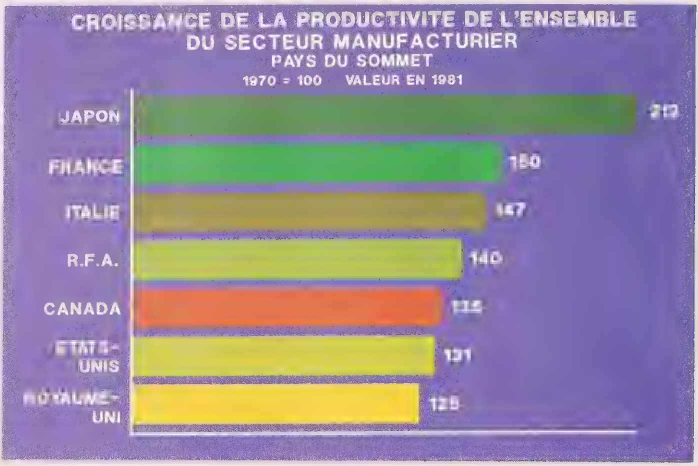


Illustration 7:

Les succès du Japon sur les marchés extérieurs s'expliquent en partie par une remarquable croissance de sa productivité manufacturière. Sur la base d'un indice de 100 en 1970, le Japon atteignait 212 et le Canada 135 en 1981. Ceci nous classait au cinquième rang des sept pays du Sommet Économique pour ce qui est de la croissance de la productivité, soit juste devant les États-Unis et le Royaume-Uni. Bien que le niveau absolu de notre productivité ait toujours été fort élevé, il y a cependant lieu de s'inquiéter de la tendance dans la croissance de la productivité telle qu'illustrée ici.

Illustration 6:

Ce graphique illustre la croissance des exportations mondiales et canadiennes dans différents secteurs d'activité. Des sept catégories illustrées, ce sont les exportations mondiales de machines et de produits en métal ouvré qui se sont accrues le plus rapidement. Il s'agit d'une catégorie très importante qui comprend environ la moitié des exportations mondiales d'articles manufacturés. Nos exportations dans cette catégorie se sont accrues moins vite que les exportations mondiales. Il en est de même des produits chimiques, deuxième grande catégorie pour le taux de croissance. Le graphique indique donc que le commerce du Canada marque le pas dans certains des domaines les plus dynamiques. Il s'agit là d'une généralisation qui masque le fait que des exportateurs canadiens vendant certains articles manufacturés de chacune des catégories considérées ont connu de grands succès sur les marchés étrangers. Vue sous cet angle, la véritable question est de savoir comment étendre nos succès dans les catégories de produits à taux de croissance élevé.

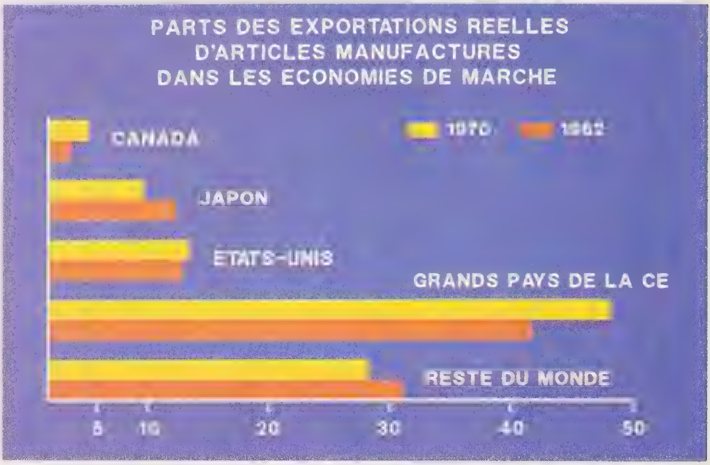


Illustration 5:

Nos exportations se sont beaucoup diversifiées, et les articles manufacturés représentent une part croissante de nos ventes à l'étranger. La part des exportations d'articles manufacturés dans les économies de marché est un bon indicateur du dynamisme économique et de la compétitivité. Or, la nôtre a régressé, passant de 4,8 pour cent en 1970 à 3,6 pour cent en 1982. Les six principaux pays de la Communauté européenne (Belgique, France, RFA, Italie, Pays-Bas et Royaume-Uni) ont également accusé un déclin semblable. En comparaison, la part des États-Unis a peu changé, alors que celles du Japon et du reste du monde ont sensiblement augmenté. Si cette évolution relative peut sembler peu importante lorsqu'on la mesure en points de pourcentage, elle est en fait très importante parce que le volume des échanges internationaux est très considérable, et que leur valeur ne cesse de s'accroître.

Illustration 4:

Les exportations sont essentielles à la création d'emplois au Canada. Notre part du commerce mondial des exportations était de 4,5 pour cent en 1970. Elle était de 4,0 pour cent en 1983. Si nous avions eu une part de 4,5 pour cent en 1983, soit une hausse de 0,5 pour cent, nous aurions créé quelque 160,000 emplois de plus. Selon le Conseil économique du Canada, notre part des exportations mondiales s'établira à 3,8 pour cent et notre taux de chômage à 9,8 pour cent en 1990. Si nous remontions notre part des exportations mondiales de marchandises à 4,5 pour cent d'ici 1990, notre taux de chômage ne serait plus alors que 7,3 pour cent. D'ici 1990, chaque milliard de dollars en exportations supplémentaires de marchandises devrait générer quelque 16,000 nouveaux emplois. Bien que personne ne puisse prédire avec assurance et précision la véritable incidence qu'aurait sur l'emploi un accroissement de notre part des marchés mondiaux, il ne fait aucun doute que cette incidence serait importante et positive.

Illustration 3:

Depuis la fin de la Seconde Guerre mondiale, la tendance générale sur une longue période démontre nettement que les États-Unis absorbent une part toujours plus importante de nos exportations—plus de 70 pour cent actuellement, comparativement à environ 50 pour cent à la fin des années 40. Au début de cette période, l'Europe de l'Ouest comptait pour une part bien plus grande de nos exportations que ce n'est le cas de nos jours.

Illustration 2:

En 1983, les États-Unis ont acheté 72,9 pour cent de toutes nos exportations. Ce pourcentage sera encore plus élevé pour l'année 1984. Le Japon, pourtant notre deuxième partenaire commercial en importance, n'a acheté que 5,2 pour cent de nos exportations. Cet écart illustre bien l'importance d'assurer notre accès au marché américain comme prérequis à notre prospérité économique. Presque toutes nos industries et toutes nos régions exportent aux États-Unis. Plusieurs considèrent notre succès sur le marché américain comme une condition préalable à notre succès sur les autres marchés étrangers.

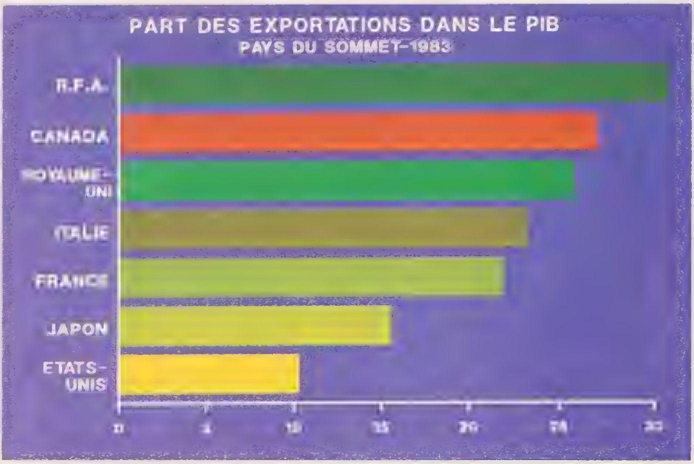


Illustration 1:

Des sept pays qui participent aux Sommets économiques, le Canada vient au deuxième rang en ce qui concerne le pourcentage du produit intérieur brut qui est destiné à l'exportation (28 pour cent). Seule l'Allemagne de l'Ouest, avec 32 pour cent, nous surpasse en ce domaine. En comparaison, nos deux principaux partenaires commerciaux, les États-Unis et le Japon, sont beaucoup moins dépendants de leurs exportations. Leurs marchés intérieurs, beaucoup plus considérables que le nôtre, absorbent en effet une bien plus grande part de leur production nationale. En 1984, nous avons exporté pour plus de 4,000 dollars par habitant.

Introduction:

Le Canada est une grande nation commerçante, et le commerce extérieur lui est essentiel pour générer des revenus et des emplois.

Les trois principaux ingrédients de notre succès sur les marchés extérieurs sont notre compétitivité, notre accès aux marchés étrangers et une commercialisation efficace de nos exportations. Chacun de ces ingrédients est indispensable et étroitement lié aux deux autres. Il est en effet plus facile de commercialiser un produit lorsque celui-ci peut se vendre à un prix compétitif, et lorsque l'on bénéficie de débouchés assurés.

Le but de ce bref exposé est de souligner l'importance du commerce extérieur pour le Canada, de dégager certaines faiblesses en ce qui concerne notre compétitivité, et d'exposer certains défis pour l'avenir.

LE CANADA
ET LE MONDE:
LA CONCURRENCE
POUR LES MARCHÉS
EXTÉRIEURS

Conférence des premiers ministres sur l'économie
Régina, Saskatchewan
14-15 février 1985

LE CANADA ET LE MONDE: LA CONCURRENCE POUR LES MARCHÉS EXTÉRIEURS

Gouvernement du Canada

EXPORTS BUILD CANADA EXPORTER, ÇA RAPPORTE

Here's how you can identify with exports.

Consider this your passport to use the export logo. When you use it through the year, you show support for Canada's export trade. After all, if you think exports are important to Canada, this is your logo.

When you use it in your publications and advertising (and other places) it says you know exports mean a lot to the country. Use it in ads, newsletters, notices, announcements, posters, editorial material . . . actually any print application you can imagine.

And the beauty is, these can be used in the different sizes on the sheet, or you can shrink or enlarge them in production.

Use this and help exports build Canada.

Voici comment vous pouvez vous identifier à l'exportation.

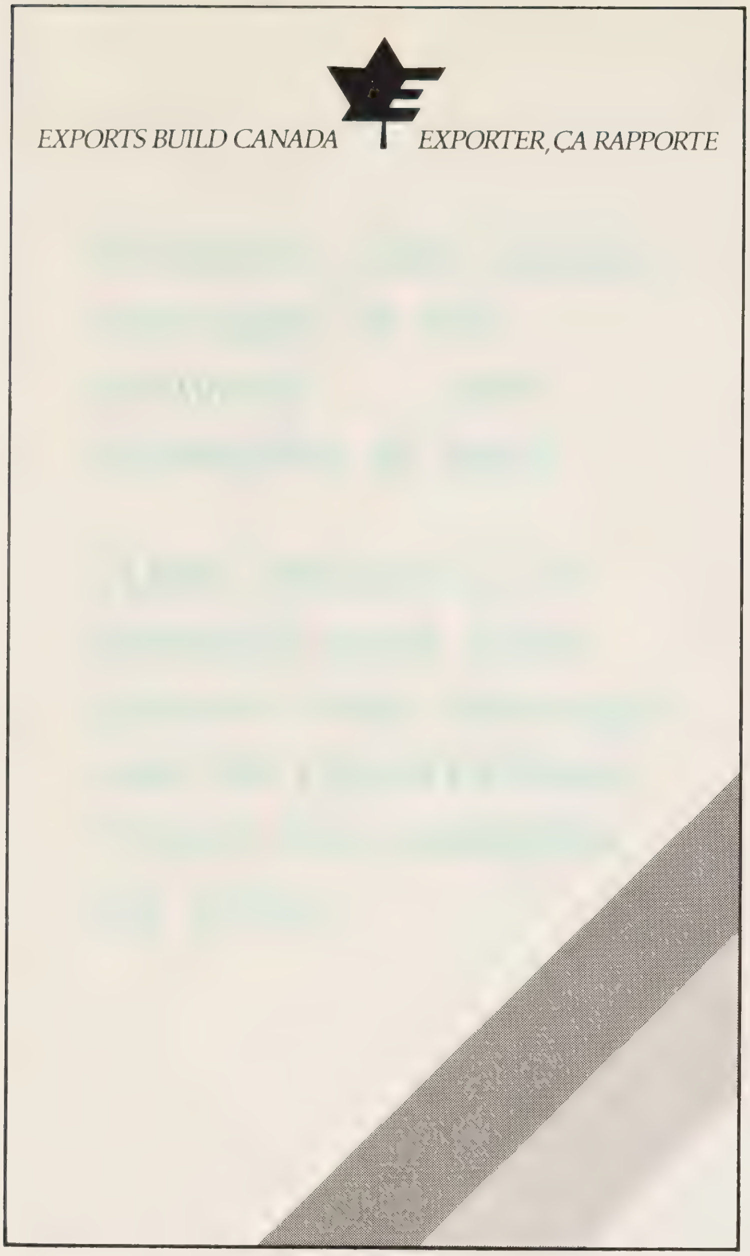
En utilisant le logo des exportations, tout au long de l'année, vous appuyez à votre façon les exportations canadiennes. L'utilisation que vous en ferez témoignera de l'importance que revêt à vos yeux le commerce extérieur pour le Canada.

Dans vos publications, dans votre publicité, ou ailleurs, la présence du logo signifie que vous croyez au rôle crucial des exportations dans l'économie canadienne. En fait, le logo a sa place dans tout ce que vous imprimez : publicité, bulletins, avis, annonces, affiches, articles, textes . . .

Vous pouvez par ailleurs augmenter ou réduire la taille du logo selon vos besoins ou vos contraintes d'espace.

Exporter, ça rapporte : ça, vous le savez. Prêchez par l'exemple et utilisez le logo.

Use these in newsletters, posters, brochures, advertisements, publications, postage stamp cancellation meters, media, or any other application that suits your specific needs.



EXPORTS BUILD CANADA EXPORTER, ÇA RAPPORTE

October is Canada Export Trade Month

EXPORTER, ÇA RAPPORTE EXPORTS BUILD CANADA

Exportations canadiennes en tête.

We're working on Canadian Exports.

EXPORTER, ÇA RAPPORTE EXPORTS BUILD CANADA

Octobre, le Mois canadien de l'Exportation

October is Canada Export Trade Month
Octobre, le Mois canadien de l'Exportation

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Octobre, le Mois canadien de l'Exportation

FOR YOUR USE

– This visual is being used across the country. It is important to keep the presentation consistent. Please use it in the formats shown.
– Reproduce logos in black only, or reversed white out of colour, or in two colours with the stylized Maple Leaf in pantone 206 Red and the Slogan in pantone 266 Violet. The symbol may be black, reversed white, or red.

POUR VOTRE UTILISATION

– Ne faire aucun réagencement des éléments du logo. Il importe de garder cette image intacte car elle est reproduite dans l'ensemble du pays.
– Reproduire les logos en noir seulement ou en blanc sur fond noir, ou encore en deux couleurs (feuille d'érable stylisée en rouge pantone 206, et slogan en violet pantone 266). Le symbole peut être reproduit en noir seulement, en blanc sur fond noir, ou en rouge.

Servez-vous du logo dans les bulletins de nouvelles, affiches, brochures, annonces publicitaires, publications, machines à oblitérer, journaux, ou partout où cela convient à vos besoins.

EXPORTS BUILD CANADA EXPORTER, CA RAPPORTE	EXPORTS BUILD CANADA EXPORTER, ÇA RAPPORTE	EXPORTER, ÇA RAPPORTE EXPORTS BUILD CANADA
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EXPORTS BUILD CANADA

Here are a few ways that you can use these ad formats.

Companies

Tell about your export success in penetrating a new export market, introduction of a new product to world markets, announcement of a large sale or significant increase in export sales . . . and what that means for staffing, profitability and production.

Announce your attendance or participation in a business show, trade show or trade mission.

Have your president make a statement about exports in a publication's editorial or advertising column.

Publicize your company's executives giving speeches to other groups.

Announce an open house, plant tour or foreign exchange visit.

Industry Associations

Announce your annual meeting, annual conference or special seminar where a section of the program is on export trade.

Tell a member company success story, and how others used similar approaches or strategy.

Announce new export programs or joint ventures involving your members.

Media

Use as the theme for special supplements and special sections focussing on export trade success stories from local companies.

Use the format as a table of contents frame for an issue or two.

Apply the format to frame slide visuals of export related news or feature coverage on newscasts.

Academia and Government

Announce a conference, seminar or speaker on export trade.

Publicize joint ventures or involvement with organizations in Canada's export trade, using internal publications.

Announce trade missions involving ministers or other officials.

Publicize, advertise a successful program that helps build Canada's export trade.

EXPORTER, ÇA RAPPORTE

Voici quelques exemples d'utilisations possibles de ce moyen de promotion.

Entreprises

Racontez comment vous avez réussi à faire une percée sur un nouveau marché d'exportation, à lancer un nouveau produit à l'étranger, à faire une grande vente ou à accroître sensiblement votre chiffre d'affaires à l'exportation . . . et indiquez comment tout cela se traduit en termes d'emplois, de rentabilité et de production.

Annoncez votre participation à une exposition ou à une mission commerciale.

Publiez une déclaration de votre président au sujet de l'exportation, dans un éditorial ou dans les pages publicitaires d'une publication.

Faites de la publicité au sujet des discours prononcés par les dirigeants de votre compagnie devant d'autres groupes.

Annoncez une journée d'accueil, une visite guidée d'usine ou la venue d'une mission étrangère chez vous.

Associations industrielles

Annoncez votre assemblée, votre conférence annuelle, ou un séminaire spécial dont une partie est consacrée à l'exportation.

Faites connaître les succès de l'une de vos compagnies membres et comment d'autres en sont venues à utiliser des méthodes semblables.

Annoncez de nouveaux programmes d'exportation ou des co-entreprises auxquels participent certains de vos membres.

Médias

Employez le logo comme marque d'identification pour des suppléments ou des sections spéciales relatant les succès des entreprises locales sur les marchés étrangers.

Utilisez-le pour encadrer la table des matières d'un ou deux numéros.

Servez-vous-en comme cadre pour des diapositives utilisées lors de bulletins de nouvelles traitant des exportations ou de reportages spéciaux diffusés au téléjournal.

Établissements d'enseignement et gouvernements

Annoncez telle conférence ou tel séminaire sur le commerce extérieur, ou la venue de conférenciers qui traiteront de ce sujet.

Dans les publications internes, faites de la publicité sur les projets entrepris conjointement avec des organismes canadiens d'exportation.

Annoncez les missions commerciales auxquelles participeront des ministres ou des hauts fonctionnaires.

Faites de la publicité sur tel programme fructueux de commerce d'exportation entrepris au Canada.

EXPORTS BUILD CANADA EXPORTER, ÇA RAPPORTE

NOW AND THEN

- Canada exported a record $112 billion worth of products in 1984.

  In November, 1865, an eight-man delegation went to London with a concern about Canada's financial future following the impending lapse of the Reciprocity Treaty with the U.S. which was to occur in 1866. As a result, the first Canadian trade mission went seeking to broaden its markets, to the West Indies early in 1866.

- One in every five members of the Canadian work force, about two million Canadians, now works in areas directly related to trade.

  The first Canadian Trade and Commerce Bill was passed by Parliament, June 16, 1887, when Canada was 20 years old. That same year, four men were sent to various parts of the world to investigate trade opportunities in the Sandwich Islands (Hawaii), West Indies, Cuba and Puerto Rico, Australia, Argentina and Brazil.

- In 1984, the U.S. took 75.6% of all Canadian exports. Asia followed with 8.7% and Western Europe with 7.3%.

  In 1887, 47% of our exports, primarily lumber, agricultural produce and animal products, went to the United States and 45% to Britain.

- Thirty cents of every dollar of Canada's Gross National Product in 1984 came from exports.

  The Canadian foreign commercial service began in the West Indies in 1892 with five part time agents.

- Canada now has 120 diplomatic, trade and consular offices spread over the globe.

  The first effort designed to stimulate Canadian trade in 1893 was the publication of commercial markets abroad in the new department's annual report, which had an extremely limited distribution.

- In 1984, Canada Export Trade Month involves Canadians from coast to coast in business and industry, education and culture, spreading the message **Exports Build Canada.**

October is Canada Export Trade Month

Octobre, le Mois canadien de l'Exportation

EXPORTS BUILD CANADA EXPORTER, ÇA RAPPORTE

Did you know...?

National Figures

- Canada exported a record $112-billion worth of products in 1984 and recorded its largest ever trade surplus of $20.8 billion.

- 30 cents of every dollar of Canada's Gross National Product comes from exports.

- On a per-capita basis it means exports are worth slightly more than $3000 for every Canadian.

- More than 3 million jobs depend on exports. In the manufacturing sector alone, upwards of 1.2 million persons are employed directly or indirectly in export activity.

- An increase of exports by $1 billion would result in an increase of 15,700 jobs. Therefore the ratio of exports to jobs is $63,000:1.

- Canada is one of the most foreign-trade dependent countries in the industrialized world. Among the top industrialized countries in the world, only West Germany's depedence on exports is higher than Canada's.

- Canada's Five Largest Export Markets - 1983.

1)	U.S.	72.9 per cent
2)	Japan	5.2 per cent
3)	U.K.	2.6 per cent
4)	U.S.S.R.	2.0 per cent
5)	China	1.8 per cent
6)	Rest of the world	15.5 per cent

- The U.S. is our biggest customer, buying a record 72.9 per cent -- or $66.34 billion worth of our exports while selling us, in return, $54.1 billion in goods.

- Canada is by far the U.S.'s most important market, accouting, in 1983 for 19 per cent of its total exports.

- Canada's three major exports are:
  1) Passenger automobiles and chassis (to the U.S.)
  2) Natural gas (to the U.S.)
  3) Wheat (to the U.S.S.R., China, Japan, and Brazil)

October is Canada Export Trade Month

Octobre, le Mois canadien de l'Exportation

<u>Provincial Figures</u>

- Ontario's share of the total Canadian exports in 1984 was $53.5 billion.

- In employment terms, exports generate 20 per cent of all Ontario's jobs and are worth on a per-capita basis, almost $4000 for every resident.

- On a per-capita basis we export three times as much as Japan.

- Ontario is the source of more than three-quarters of Canada's fully-manufactured exports.

- Ontario exports 90.3% of it's total exports to the U.S. of which the principal export "transportation" constitutes 59%.

- 48.5% of the total U.S. population lives within one day's trucking from Ontario.

- Ontario ships four-fifths of the country's total manufactured goods.

EXPORTS BUILD CANADA EXPORTER, ÇA RAPPORTE

CANADA EXPORT TRADE MONTH - OCTOBER 1985

October is again Canada Export Trade Month - a joint effort of the public and private sectors of the economy to promote the importance of exports to the standard of living of every Canadian.

It is recognized that universities and colleges alike, serve as a meeting place and centre of common interest and play an important economic and social role in our community life. As such, it is felt that the academic institutions throughout this province would provide a perfect platform in which to promote to its students, faculty and members, the important economic and social roles that exports play in the Canadian economy.

To assist you in this, the Department of Regional Industrial Expansion and the Department of External Affairs have designed a variety of special promotional materials. These range from posters, insert supplements, to informative educational materials. We encourage you to make use of these colourful and appealing materials to show your support for this joint private and public sector initiative.

I hope these materials will provide your school with the necessary focus needed in developing a greater awareness, sensitivity and understanding of export trade-related issues, from which all students will benefit.

Sincerely,

P. Molnar

Peter Molnar
CETM Coordinator
Dept. of Regional
Industrial Expansion

October is Canada Export Trade Month
Octobre, Mois canadien l'Exportation

EXPORTS BUILD CANADA EXPORTER, ÇA RAPPORTE

CANADA EXPORT TRADE MONTH, October 1985

Canada's international reputation as a world-class exporting nation gets a lift this October as Canada Export Trade Month (CETM) focuses on the country's record-breaking trade performance, and the continuing need to expand exports and improve our international competitiveness.

The Trade Month program, now in its third year, is truly a co-operative one - the work of national, provincial and local business groups and associations, federal and provincial governments, the export community, labour and even Canada's cultural and academic worlds.

The common goal of this cross-Canada coalition is export enhancement. Regional trade month committees in each province, working with a small national task force, co-ordinate that national export awareness month. Throughout October they will oversee literally hundreds of trade-related events in their regions, all with that common thread - helping to bring home the message that **Exports Build Canada.**

Canada's future, as International Trade Minister James Kelleher puts it, hinges on its ability to foster and improve its international trading and world competitiveness.

Objectives

Canada Export Trade Month is focused on a number of objectives including:

- to increase export awareness within the business community and emphasize the very real link between exports and Canada's economic future.
- to emphasize Canada's reputation as a world-renowned exporter of quality products and superior expertise.
- to seek broad private and public sector support for ongoing programs of export awareness.
- to encourage export growth and international competitiveness by acknowledging and rewarding Canada's outstanding export achievers.

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. to demonstrate the broad dimensions of governmental support available to Canadian exporters.

. to keep the Canadian media fully informed of all export activities and events which impact economically on the lives of Canadians.

The 1985 program

Export trade month, since its inception in 1983, has evolved into an annual focal point for this country's ongoing export promotional efforts.

This year's program will concentrate its efforts on achieving a number of goals. They include:

- greater involvement and support for CETM by the business community;

- the successful demonstration of a government/business partnership that works and solidly impacts on Canada's export performance and its international competitiveness;

- the strengthening of regional export trade month committees that implement and deliver CETM programs and events in the provinces, and;

- the raising of the level of awareness of export trade among the general public.

Target Audience

Canada Export Trade Month will focus on the following target groups:

- Industry (all sectors from manufacturing to processing, agricultural, fishing and service) but with particular emphasis on small to medium-sized companies that may have an interest, ability, or which are currently exporting.

- employees of Canadian industry.

- Academic community - universities, community colleges, high schools, public schools and extension course facilities.

- General public.

- Media.

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Tangible Benefits

When Canadian goods, services or technology are exported, considerable benefits result in a variety of ways:

- Job creation: Increased exports translate into higher production, more employment and higher incomes in Canada.

- Higher profits: More exports spell greater profits for Canadian companies, more investment and greater levels of research and development.

- Better lifestyle: Since more than a third of Canada's workforce depends on exports, increased levels of trade provide job security and enhanced lifestyles.

Trade Month Slogan

The identifying slogan for Canada Export Trade Month is:

Exports Build Canada
Exporter, ça rapporte